

C. DUKES SCOTT
EXECUTIVE DIRECTOR

P.O. Box 11263
Columbia, S.C. 29211



Phone: (803) 737-0800
Fax: (803) 737-0801

DAN F. ARNETT
CHIEF OF STAFF

103/17/06

178508 SA1

March 16, 2006

VIA E-FILING & HAND DELIVERY

The Honorable Charles L.A. Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Dr., Suite 100
Columbia, SC 29210

RECEIVED
2006 MAR 17 AM 10:50
SC PUBLIC SERVICE COMMISSION

Re: Annual Review of Base Rates for Fuel Costs of South Carolina Electric and Gas Company
Docket No. 2006-2-E

Dear Mr. Terreni:

Enclosed please find the original and one copy of the Direct Testimony and Exhibits of Randy Watts and Jackie Cherry in the above referenced docket.

Please note that the attached documents are exact duplicates, with the exception of the form of the signature, of the e-filed copy submitted to the Commission in accordance with its electronic filing instructions.

By copy of this letter we are also serving all other parties of record. Please let me know if you have any questions.

Sincerely,

Shannon Bowyer Hudson
Shannon Bowyer Hudson

SBH/pjm
Enclosures

cc: Patricia Banks Morrison, Esquire (w/enc)
Mitchell M. Willoughby, Esquire (w/enc)
Belton T. Zeigler, Esquire (w/enc)
Scott Elliott, Esquire (w/enc)
E. Wade Mullins, III, Esquire (w/enc)
Damon E. Xenopoulos, Esquire (w/enc)

RETURN DATE: *OK D. Duke*
SERVICE: *OK D. Duke*

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2006-2-E

IN RE:

South Carolina Electric & Gas Company)	
Annual Review of Base Rates for)	CERTIFICATE OF SERVICE
Fuel Costs)	

This is to certify that I, Pamela J. McMullan, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the **DIRECT TESTIMONY AND EXHIBITS OF RANDY WATTS AND JACKIE CHERRY** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

Patricia Banks Morrison, Esquire
South Carolina Electric and Gas Company
Legal Department - 130
Columbia, SC, 29218

Mitchell M. Willoughby, Esquire
Willoughby & Hoefer, P.A.
Post Office Box 8416
Columbia, SC, 29202

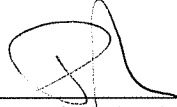
Belton T. Zeigler, Esquire
Haynsworth Sinkler & Boyd, PA
Post Office Box 11889
Columbia , SC, 29211

Scott Elliott , Esquire
Elliott & Elliott, P.A.
721 Olive Street
Columbia, SC , 29205

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E. Wade Mullins, III, Esquire
Bruner Powell Robbins Wall & Mullins, LLC
Post Office Box 61110
Columbia, SC 29260

Damon E. Xenopoulos, Esquire
Brickfield, Burchette, Ritts & Stone, P.C.
1025 Thomas Jefferson Street, N.W.
Washington, DC 20007



Pamela J. McMullan

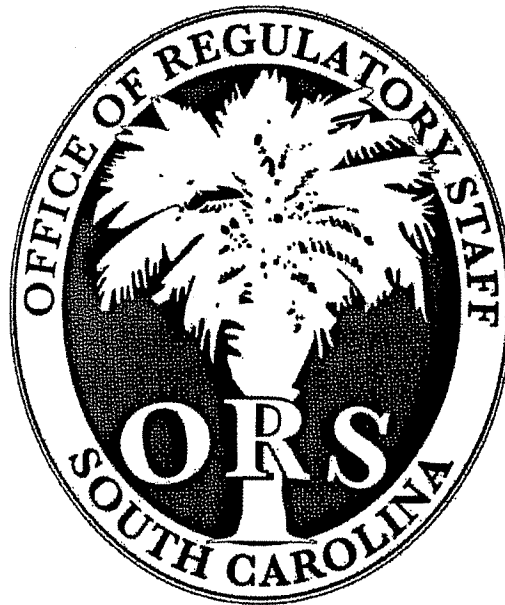
March 16, 2006
Columbia, South Carolina

THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY AND EXHIBITS

OF

A. Randy Watts



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COMMISSION

DOCKET NO. 2006-2-E

South Carolina Electric and Gas Company

Annual Review

THIS DOCUMENT IS AN EXACT
DUPLICATE, WITH THE EXCEPTION OF
THE FORM OF THE SIGNATURE, OF THE E-
FILED COPY SUBMITTED TO THE
COMMISSION IN ACCORDANCE WITH ITS
ELECTRONIC FILING INSTRUCTIONS.

DIRECT TESTIMONY OF**A. RANDY WATTS****ON BEHALF OF****THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF****DOCKET NO. 2006-2-E****IN RE: SOUTH CAROLINA ELECTRIC & GAS COMPANY-
ANNUAL REVIEW OF BASE RATES FOR FUEL COSTS**

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14 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND**
15 **OCCUPATION.**

16 **A.** My name is A. Randy Watts. My business address is 1441 Main Street,
17 Suite 300, Columbia, South Carolina 29201. I am employed by the State of South
18 Carolina as Program Manager in the Electric Department for the Office of
19 Regulatory Staff ("ORS").

20 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**
21 **EXPERIENCE.**

22 **A.** I received a Bachelor of Science Degree in Electrical Engineering from
23 the University of South Carolina in Columbia in 1976. I was employed at that
24 time by the Public Service Commission of South Carolina ("Commission") as a
25 Utilities Engineer in the Electric Department and was promoted to Chief of the
26 Electric Department in August 1981. Subsequent to internal Commission
27 restructuring, my position was redesignated Chief of Electric in October 1999. I
28 remained in that role until transferring to my current position with ORS in
29 January 2005. I have testified on numerous occasions before the Commission in

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Post Office Box 11263 (29211)
Columbia, SC 29201**

1 conjunction with fuel clause, complaint, territorial assignment, Siting Act and
2 general rate proceedings.

3 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
4 **PROCEEDING?**

5 **A.** The purpose of my testimony is to set forth ORS Electric Department
6 findings and recommendations resulting from our examination of South Carolina
7 Electric & Gas Company's ("Company") fuel expenses and power plant
8 operations used in the generation of electricity for the period under review.

9 **Q. WHAT AREAS WERE ENCOMPASSED IN YOUR REVIEW OF THE**
10 **COMPANY'S FUEL EXPENSES?**

11 **A.** ORS reviewed the Company's responses to our Data Requests (Set Nos. 1
12 and No. 2) which encompassed approximately 49 multi-part questions. The first
13 data request addressed energy generation and maintenance activities. The second
14 data request focused on the performance of the Canadys Unit No. 3. In
15 preparation for this proceeding, ORS also reviewed the Company's monthly fuel
16 reports including power plant performance data, major unit outages and
17 generation statistics. All data was reviewed and analysis made with reference to
18 the Company's existing Adjustment for Fuel Costs tariff and the Fuel Clause
19 statute.

20 **Q. WHAT ADDITIONAL STEPS WERE TAKEN IN ORS'S REVIEW OF**
21 **THE COMPANY'S REQUEST IN THIS PROCEEDING?**

22 **A.** ORS met with Company personnel including the General Manager of
23 Fossil and Hydro Operations to discuss the Company's plant operations with

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1 specific attention to Canadys Unit No. 3. Staff also met with personnel from the
2 natural gas supply group to discuss natural gas procurement activities. ORS
3 reviewed documentation of natural gas purchases for operation of the Jasper and
4 Urquhart generating facilities during the review period.

5 In addition, on a daily basis, ORS keeps abreast of the coal and natural gas
6 industry through industry and governmental publications. During the review
7 period, the coal industry continued to experience elevated prices. Also, natural
8 gas prices were adversely affected by the damage and devastation caused by
9 Hurricanes Katrina and Rita.

10 **Q. DID ORS EXAMINE THE COMPANY'S PLANT OPERATIONS FOR**
11 **THE REVIEW PERIOD?**

12 **A.** Yes. ORS reviewed the Company's operation of its generating facilities,
13 including attention to the nuclear plant operations to determine if the Company
14 made reasonable efforts to minimize fuel costs. As shown by Exhibit ARW-1,
15 ORS reviewed the availability of the Company's major power plants. Page 1 of
16 Exhibit ARW-1 shows the monthly availability of the Company's generating
17 units. The capacity factors on Page 2 of Exhibit ARW-1 indicate the monthly
18 utilization of each unit in the production of power.

19 **Q. PLEASE EXPLAIN HOW ZERO AVAILABILITY IS REPRESENTED ON**
20 **EXHIBIT ARW-2.**

21 **A.** Exhibit ARW-2 complements Exhibit ARW-1 and shows the Fossil and
22 Nuclear Unit Outages of 100 hours or greater for the Company. On Page 1 of
23 Exhibit ARW-1, listings with zero availability as well as those listings with

1 months of less than 100% availability led us to investigate reasons for such
2 occurrences. These findings are examined by referencing Exhibit ARW-2. As an
3 example, Page 1 of Exhibit ARW-1 shows VC Summer nuclear unit had zero
4 availability in May 2005. Page 2 of Exhibit ARW-2 explains the reason for the
5 zero availability in May 2005. The VC Summer nuclear unit had a scheduled
6 refueling outage between April 23, 2005 and June 1, 2005, and therefore, the unit
7 was not available to generate electricity during this time period.

8 **Q. WOULD YOU EXPLAIN THE OTHER OUTAGES AS OUTLINED ON**
9 **EXHIBIT ARW-2?**

10 **A.** Yes. Page 1 of Exhibit ARW-2 shows major fossil unit outages of 100
11 hours or greater during the review period. Although not included in this Exhibit,
12 outages lasting less than 100 hours duration were also reviewed by ORS.

13 **Q. PLEASE ADDRESS THE OUTAGES AT VC SUMMER NUCLEAR**
14 **STATION.**

15 **A.** Page 2 of Exhibit ARW-2 shows one scheduled and one forced outage
16 experienced during the review period. As previously stated, the first was the
17 normal scheduled refueling outage that lasted approximately forty days and
18 occurred between April 23, 2005 and June 1, 2005. VC Summer is on an
19 approximate 18 month refueling cycle. The outage was extended several days
20 beyond the original schedule due to emerging work activity. The second outage
21 was a forced outage due to failure of the "B" condensate pump motor which
22 occurred between August 25, 2005 and August 27, 2005. The Unit also operated
23 at slightly reduced power levels several times during the review period in order to

1 make repairs to various failed equipment. ORS found that the Company took
2 appropriate corrective action with respect to these outages, and there were no
3 Nuclear Regulatory Commission ("NRC") fines associated with these outages.

4 **Q. WHAT WERE THE RESULTS OF YOUR ANALYSIS OF THE**
5 **COMPANY'S OTHER POWER PLANT OPERATIONS FOR THE**
6 **PERIOD UNDER REVIEW?**

7 **A.** ORS's review of the Company's operation of its generating facilities
8 resulted in a finding that the Company made reasonable efforts to maximize unit
9 availability and minimize fuel costs when considering all plant operations
10 including its current state of resource mix.

11 **Q. DURING ORS'S REVIEW WERE THERE ANY ISSUES OR AREAS OF**
12 **CONCERN IDENTIFIED BY STAFF?**

13 **A.** Yes. As mentioned previously, ORS met with Company plant operation
14 personnel as well as issued a separate data request focusing on the performance of
15 Canadys Unit No. 3. This focus resulted from our review and analysis of plant
16 performance data including outage reports for the review period. It was obvious
17 from the data that Canadys Unit No. 3 was operating at a significantly lower level
18 than the Company's other fossil units.

19 **Q. WHAT WERE THE RESULTS OF ORS'S REVIEW OF THE**
20 **PERFORMANCE OF CANADYS UNIT NO. 3?**

21 **A.** As can be seen on Exhibit ARW-1 page 1 of 2, the average availability for
22 this Unit during the review period was less than fifty (50%) percent, while the
23 next lowest of the ten fossil units was over eighty-four (84%) percent. Also from

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1 Exhibit ARW-1 page 2 of 2 for these same ten fossil units, over the past four
2 calendar years, the only period when Canadys Unit No. 3 was not the lowest
3 performing unit was in 2004. Canadys Unit No. 3's performance is especially
4 disappointing and prominent in light of the Company's quality track record of
5 fossil plant performance. Our extensive analysis revealed that although this
6 particular Unit's operation is reflected in an uncharacteristic outage pattern, there
7 were no instances where ORS could determine the Company acted unreasonably
8 in its reparation or other plant related activities that may have lead to the Unit
9 being out of service. We did find that Canadys' Unit No. 3 vintage along with its
10 design appears to offer unique challenges to plant operations as well as
11 maintenance activities.

12 **Q. WHAT RECOMMENDATIONS DOES ORS HAVE IN REGARDS TO**
13 **CANADYS UNIT NO. 3?**

14 **A.** We recognize that the Company has made efforts to repair, replace and
15 refurbish equipment, and update systems at this Unit specifically during this
16 review period as described in the prefiled testimony of Company witness Gene
17 Soult. As he explained in part, these maintenance activities were performed on
18 equipment that had been causing forced outages and delays in startup. With this
19 acknowledgment and our findings, ORS believes it is incumbent upon our agency
20 to specifically monitor the progress and performance of this Unit in the
21 intervening months at least until the next fuel review proceeding. To assist in
22 these efforts ORS is requesting the Company, in addition to the other routine
23 filings currently being supplied, provide to ORS a monthly activity and status

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1 report on Canadys Unit No. 3. This monthly report should include detailed
2 specifics on the Units operation, description of any enhancements or
3 improvements installed or planned, how previous improvements are performing,
4 and any other materials, data or information that would aid in ORS's ability to
5 understand and evaluate the status of the Company's progress in improving this
6 Unit's availability and reliability.

7 **Q. DID ORS REVIEW THE GENERATION MIX UTILIZED BY THE**
8 **COMPANY DURING THE REVIEW PERIOD?**

9 **A.** Yes. Exhibit ARW-3 shows the monthly generation mix for the review
10 period by generation type. As shown in this Exhibit, the higher fuel cost
11 combined-cycle natural gas-fired plants, which include both Urquhart and Jasper,
12 contributed higher percentage generation during the summer or peak months and
13 lower percentage generation during the non-summer period.

14 **Q. WHY DID YOU REFER TO THE COMBINED CYCLE PLANTS AS**
15 **HAVING HIGHER COSTS?**

16 **A.** Exhibit ARW-4 shows the average fuel costs for the major generating
17 plants on the Company's system for the review period and the megawatt-hours
18 produced by those respective plants. The chart shows the lowest average fuel
19 costs for VC Summer Nuclear Station being 0.45 cents/kwh and the highest
20 average fuel costs for the Jasper and Urquhart natural-gas fired combined cycle
21 plants being 7.93 and 9.73 cents/kwh, respectively. The Company utilizes
22 economic dispatch which generally requires that the lower cost units are
23 dispatched first.

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1 **Q. HAS ORS REVIEWED THE ACCURACY OF THE COMPANY'S**
2 **FORECAST?**

3 **A.**Yes. As shown in Exhibit ARW-5, the Company's actual sales versus
4 forecasted sales varied by only 0.99% during the review period. In addition,
5 Exhibit ARW-6 shows the monthly variance between projected and actual fuel
6 cost factors. The variances for the summer months of July, August and September
7 as well as the month of December, 2005 were the result of higher than anticipated
8 natural gas prices. In January 2006, the Company was able to bring the cost of
9 fuel in at a lower level than originally projected in main part due to the milder
10 weather which resulted in a lower demand on the system and thus minimizing the
11 operation of the natural gas-fired units. The Company's cumulative average
12 projected fuel cost level for the period was 3.59% below the actual resulting cost
13 level which is reasonable considering the effect of the previously mentioned
14 higher cost of natural gas.

15 **Q. DID ORS REVIEW ADDITIONAL INFORMATION IN DETERMINING**
16 **THE REASONABLENESS OF THE COMPANY'S FORECAST?**

17 **A.**Yes. ORS reviewed the forecasted maintenance schedules for the
18 Company's major generating units as well as the Company's fuel price forecast
19 for Nuclear, Coal, and Natural Gas. The Company continues to utilize the
20 PROSYM® computer model to project fuel costs. PROSYM® is a widely
21 accepted computer model utilized by numerous utility companies throughout the
22 country for fuel cost projections. The use of the model has not changed and based
23 on our review ORS believes the Company's forecast to be reasonable.

1 **Q. WHAT OTHER REVIEWS HAS ORS UTILIZED IN MAKING ITS**
2 **DETERMINATIONS IN THIS PROCEEDING?**

3 **A.**Exhibit ARW-7 shows the actual ending balances of over and under
4 collections of fuel costs beginning July 1979. The Company has experienced
5 both over and under recovery balances throughout the approximate twenty-five
6 year period. As of January 2006, the Company was experiencing a cumulative
7 under-recovery of \$54,743,186.

8 **Q. WHAT OTHER SOURCES DOES ORS USE IN DETERMINING THE**
9 **REASONABLENESS OF THE COMPANY'S REQUEST?**

10 **A.**ORS routinely: 1) reviews private and public industry publications as well
11 as those available on the Energy Information Administration's ("EIA") website;
12 2) conducts meetings with Company personnel; 3) conducts meetings with
13 representatives of large industrial users; 4) attends industry conferences; and 5)
14 reviews fuel information as filed monthly by electric generating utilities on Form
15 423 with the Federal Government. An example of EIA data reviewed is included
16 on Exhibit ARW-8. This Exhibit shows the significant price increase for coal
17 purchased on the spot market, particularly for Central Appalachia coal, over the
18 three year period ending February 17, 2006. The Company primarily obtains its
19 coal from the Central Appalachia coal region.

20 **Q. DOES ORS HAVE A RECOMMENDATION FOR THE FUEL**
21 **COMPONENT IN THIS PROCEEDING?**

22 **A.**Yes. ORS recommends the Company's base fuel component in this
23 proceeding be set at 2.516 cents/kwh for the period May 2006 through April 2007

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1 as shown on Exhibit ARW-9. The Audit Department of ORS provided the under-
2 recovered balance at the end of April 2006 of \$38.488 million used in this
3 calculation.

4 **Q. PLEASE EXPLAIN THE BASIS FOR YOUR PROPOSED BASE FUEL**
5 **LEVEL COMPONENT.**

6 **A.** ORS is cognizant of the continued level of under-recovery in the
7 cumulative recovery account as was the case in the Company's prior fuel review
8 proceeding in 2005 which was driven mainly by significant coal cost increases.
9 Similarly, there were very unusual circumstances during this review period that
10 were beyond the Company's control, which effected the supply and cost of
11 natural gas used for power production at the Jasper and Urquhart stations. These
12 unusual circumstances are Hurricanes Katrina and Rita mentioned previously, and
13 the resulting increase in natural gas costs has been characterized as
14 unprecedented. In a matter of only two to three years these two occurrences have
15 separately and mutually resulted in extraordinary pressure on overall fuel costs for
16 the production of power and the increases in rates that are passed on to
17 consumers. As in the Company's prior 2005 case, ORS recommends that an
18 amount equal to the under recovery be levelized over a two year period. ORS's
19 recommendation will help stabilize the factor and tend to minimize fluctuations.

20 While ORS recognizes that S.C. Code Ann. § 58-27-865(B) indicates that
21 any under recovery should be recovered during the next twelve months, ORS also
22 recognizes that the Commission previously allowed an amortization of an under
23 recovery over a two year period. See Commission Order No. 2001-397 issued in

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1 Docket No. 2001-2-E, SCE&G – Annual Review of Base Rates for Fuel Costs
2 and Commission Order No. 2005-187 issued in Docket No. 2005-2-E, SCE&G –
3 Annual Review of Base Rates for Fuel Costs. In addition, ORS is charged with
4 the duty to represent the public interest of South Carolina pursuant to S.C. Code
5 §58-4-10(B) (added by Act 175), and ORS believes such a two year levelizing
6 period is appropriate and would serve the public interest. S.C. Code §58-4-
7 10(B)(1) through (3) reads in part as follows:

8 “... ‘public interest’ means a balancing of the following:
9

- 10 (1) concerns of the using and consuming public with respect to public
11 utility services, regardless of the class of customer;
12 (2) economic development and job attraction and retention in South
13 Carolina; and
14 (3) preservation of the financial integrity of the State’s public utilities
15 and continued investment in and maintenance of utility facilities so
16 as to provide reliable and high quality utility services.”
17

18 This two year levelization period would balance concerns of the using public
19 while preserving the financial integrity of the Company. ORS also believes a two
20 year levelization period would not inhibit economic development.

21 ORS also recommends that the first dollars recovered in the succeeding
22 twelve months beginning May 2006 be applied to the under recovery so that in the
23 next fuel proceeding for the Company any under recovery will be for the period
24 May 2006 through April 2007.

25 For the reasons set forth above, ORS recommends that an amount equal to
26 the under recovery be levelized over a two year period.

27 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

28 **A.** Yes, it does.

OFFICE OF REGULATORY STAFF

**SOUTH CAROLINA ELECTRIC & GAS COMPANY
ANNUAL REVIEW OF BASE RATES FOR FUEL COST
REVIEW PERIOD: FEBRUARY 1, 2005 - APRIL 30, 2007**

DOCKET NO. 2006-2-E

A. RANDY WATTS

EXHIBIT INDEX

<u>EXHIBIT NO.</u>	<u>EXHIBIT TYPE</u>	<u>PREPARED BY</u>
ARW-1	Power Plant Performance Data Report - Availability/Capacity Factors	ORS
ARW-2	Fossil/Nuclear Unit Outage Report (100 Hrs. or Greater Duration) for SCE&G	ORS
ARW-3	Generation Mix Report: (February 2005 - January 2006)	ORS
ARW-4	Generation Statistics for Major Plants: (February 2005 - January 2006)	ORS
ARW-5	SC Retail Comparison of Estimated to Actual Energy Sales	ORS
ARW-6	SC Retail Comparison of Estimated to Actual Fuel Cost	ORS
ARW-7	History of Cumulative Recovery Account Report	ORS
ARW-8	Average Weekly Coal Commodity Spot Prices	Platts Coal Outlook (From EIA website)
ARW-9	Base Fuel Rate Projected Period: (May 2006 - April 2007)	ORS

Office of Regulatory Staff
Power Plant Performance Data Report
Availability Factors (Percentage) for
South Carolina Electric and Gas Company

PLANT	UNIT	MW RATING	FEB 2005	MAR 2005	APR 2005	MAY 2005	JUN 2005	JUL 2005	AUG 2005	SEP 2005	OCT 2005	NOV 2005	DEC 2005	JAN 2006	AVG AVAIL.
CANADYS	1	105	100.0	100.0	51.1	100.0	100.0	90.0	100.0	94.4	100.0	100.0	98.8	53.0	90.6
CANADYS	2	116	100.0	99.0	26.6	32.8	94.4	100.0	96.1	99.9	74.6	100.0	100.0	94.6	84.8
CANADYS	3	175	70.5	42.9	2.6	100.0	74.8	94.0	95.7	27.2	0.0	0.0	14.2	64.8	48.9
McMEEKIN	1	125	100.0	83.8	56.4	92.0	100.0	100.0	100.0	100.0	79.4	95.7	94.4	100.0	91.8
McMEEKIN	2	125	100.0	71.0	85.6	99.9	95.5	100.0	100.0	100.0	93.1	78.8	89.6	75.2	90.7
URQUHART	3	94	14.0	4.3	100.0	100.0	100.0	100.0	100.0	98.9	98.7	100.0	99.2	100.0	84.6
WATEREE	1	350	100.0	100.0	70.7	100.0	92.2	100.0	95.5	99.4	72.6	93.3	88.5	100.0	92.7
WATEREE	2	350	91.5	82.0	73.3	91.2	100.0	100.0	89.5	100.0	100.0	72.3	100.0	96.1	91.3
WILLIAMS	615	615	100.0	100.0	74.2	100.0	100.0	90.3	100.0	100.0	69.2	100.0	100.0	100.0	94.5
COPE	410	410	0.0	29.2	98.7	88.4	100.0	99.5	100.0	100.0	100.0	99.2	98.1	99.6	84.4
FOSSIL TOTALS		2465	77.6	71.2	63.9	90.4	95.7	97.4	97.7	92.0	78.8	83.9	88.3	88.3	85.4
URQUHART CC	5	165	100.0	100.0	81.0	100.0	100.0	100.0	100.0	100.0	100.0	87.6	99.9	100.0	97.4
URQUHART CC	1	68	100.0	100.0	81.0	100.0	100.0	100.0	100.0	100.0	100.0	87.6	99.9	100.0	97.4
URQUHART CC	6	173	100.0	100.0	81.0	100.0	100.0	100.0	99.3	100.0	100.0	85.3	99.5	100.0	97.1
URQUHART CC	2	68	100.0	100.0	81.0	100.0	100.0	100.0	99.3	100.0	100.0	85.3	99.4	100.0	97.1
JASPER CC	1	165	97.0	91.3	67.6	99.5	100.0	99.1	99.6	97.9	99.5	80.0	100.0	100.0	94.3
JASPER CC	2	165	92.9	100.0	53.3	100.0	83.9	99.1	98.6	97.9	92.4	29.0	100.0	99.6	87.2
JASPER CC	3	165	95.6	100.0	79.1	100.0	100.0	99.1	99.7	93.9	100.0	80.0	100.0	100.0	95.6
JASPER CC	4	385	95.2	88.0	63.7	99.6	99.8	99.1	100.0	97.9	100.0	100.0	98.6	100.0	95.2
CC TOTALS		880	97.6	97.4	73.4	99.9	98.0	99.6	99.6	98.5	99.0	79.4	99.7	100.0	95.2
V.C. SUMMER (SCE&G)	966	966	100.0	100.0	73.3	0.0	96.8	100.0	92.8	100.0	100.0	100.0	100.0	100.0	
(SCPSA)*	644	644													
	322	322													

EXHIBIT ARW-1
Page 1 of 2

Prepared by ORS

**Office of Regulatory Staff
Power Plant Performance Data Report
Capacity Factors (Percentage) for
South Carolina Electric and Gas Company**

PLANT	UNIT	MW RATING	HISTORICAL DATA				REVIEW PERIOD (ACTUAL) DATA											
			YEAR 2002	YEAR 2003	YEAR 2004	YEAR 2005	FEB 2005	MAR 2005	APR 2005	MAY 2005	JUN 2005	JUL 2005	AUG 2005	SEP 2005	OCT 2005	NOV 2005	DEC 2005	JAN 2006
CANADYS	1	105	66.4	80.7	82.9	81.9	93.7	88.4	40.3	88.5	86.0	73.7	87.4	81.1	84.1	86.8	87.6	11.7
CANADYS	2	116	75.5	79.7	79.7	69.2	82.8	73.3	19.5	24.4	76.9	85.0	83.8	89.5	56.5	84.0	86.2	70.1
CANADYS	3	175	48.4	51.1	75.9	48.5	73.2	44.5	1.5	101.2	68.4	94.6	97.4	25.9	0.0	0.0	2.5	23.1
McMEEKIN	1	125	57.4	68.9	73.2	80.3	95.0	78.0	48.8	83.3	81.5	89.2	92.6	87.3	66.7	80.3	83.0	83.2
McMEEKIN	2	125	57.4	69.1	65.9	83.3	97.5	64.2	78.8	92.9	77.6	89.9	93.1	86.8	83.4	65.6	79.9	52.4
URQUHART	3	94	65.4	74.7	76.4	73.2	13.0	3.1	88.0	87.8	81.1	84.8	91.2	87.4	86.6	85.4	90.0	82.0
WATEREE	1	350	68.1	69.7	84.2	83.8	95.2	86.5	60.3	94.2	81.6	87.8	88.6	93.4	63.8	83.7	79.8	75.4
WATEREE	2	350	71.6	69.8	81.2	85.5	87.4	73.2	65.3	85.4	91.7	94.7	85.4	95.1	95.5	64.4	94.8	71.6
WILLIAMS		615	82.2	67.7	66.6	89.1	92.8	97.7	69.6	96.2	97.9	84.7	97.9	96.8	61.3	95.2	94.2	93.7
COPE		410	90.3	78.5	92.7	83.3	0.0	24.4	99.6	87.6	97.6	97.6	100.1	101.4	101.8	97.2	98.4	98.9
FOSSIL TOTALS		2465	73.5	70.4	78.2	81.4	72.4	68.8	64.3	88.4	88.6	89.5	93.3	89.4	72.0	79.3	84.3	76.1
URQUHART CC	5	165	n/a	n/a	n/a	10.5	0.0	0.0	1.2	0.0	16.0	37.1	41.6	13.1	0.0	0.0	3.0	3.0
URQUHART CC	1	68	n/a	n/a	n/a	10.8	0.0	0.0	1.3	0.0	17.8	37.3	43.3	13.3	0.0	0.0	3.2	3.3
URQUHART CC	6	173	n/a	n/a	n/a	6.9	0.0	0.0	1.5	0.0	5.8	21.3	29.1	7.9	0.0	0.0	11.2	0.0
URQUHART CC	2	68	n/a	n/a	n/a	8.2	0.0	0.0	1.5	0.0	6.4	28.8	33.5	9.2	0.0	0.0	12.3	0.0
JASPER CC	1	165	n/a	n/a	n/a	21.4	16.4	15.0	13.3	30.4	27.3	49.2	48.8	24.1	8.8	1.3	10.5	0.0
JASPER CC	2	165	n/a	n/a	n/a	24.7	17.9	25.8	3.0	19.4	27.3	69.9	67.8	35.5	0.8	3.0	11.0	4.7
JASPER CC	3	165	n/a	n/a	n/a	26.2	22.5	24.0	31.8	32.2	27.3	44.0	48.8	28.4	12.5	0.0	21.5	1.3
JASPER CC	4	385	n/a	n/a	n/a	18.4	13.6	16.7	11.2	20.0	23.4	41.0	45.3	23.1	5.0	0.8	8.6	1.2
TOTAL CC CAP.		1354	n/a	n/a	n/a	9.4	5.9	5.3	5.2	8.6	11.1	23.1	24.2	11.5	2.3	0.4	5.6	0.9
V.C. SUMMER (SCE&G)		966	86.6	86.9	96.5	87.7	101.3	101.2	71.6	0.0	91.3	98.3	85.2	100.1	101.0	101.0	101.5	101.5
(SCPSA)*		644																
		322																

Note 1: The lifetime capacity factor for V.C.Summer through December 2005 is 80.8%
Note 2: SCPSA represents the South Carolina Public Service Authority's 1/3 ownership of VC Summer.
Note 3: CC designates Combined-Cycle units
Note 4: Canadys #3 capacity factor for January 2006 reflects an increased capacity to 195 MW
Note 5: Cope capacity factor for January 2006 reflects an increased capacity to 420 MW

Prepared by ORS

**Office of Regulatory Staff
Fossil Unit Outage Report
(100 Hrs or Greater Duration) for
South Carolina Electric and Gas Company**

UNIT	DATE OFF	DATE ON	HOURS	TYPE	REASON FOR OUTAGE	CORRECTIVE ACTION
Canadys #1	04/09/05	04/23/05	351.92	Maintenance	Maintenance	Installation of new diesel generator and transfer switch
Canadys #1	01/03/06	01/15/06	294.00	Maintenance	Tube Leak	Unit was taken off-line to perform water wall repairs
Canadys #2	04/09/05	05/17/05	934.79	Maintenance	Boiler Leak	Unit was taken off-line to perform water wall repairs
Canadys #2	10/09/05	10/15/05	131.70	Maintenance	Maintenance	Preventative maintenance
Canadys #3	02/05/05	02/13/05	198.53	Maintenance	Maintenance	Unit was taken off-line to perform a variety of work
Canadys #3	03/14/05	04/30/05	1125.36	Forced	Vibration	Fan vibration caused unit to trip
Canadys #3	09/10/05	12/20/05	2442.29	Planned	Maintenance	Major turbine and generator overhaul
Canadys #3	01/06/06	01/12/06	136.53	Forced	Turbine Control Problem	Turbine - loose linkages
Canadys #3	01/27/06	01/31/06	114.50	Forced	Boiler Leak	Boiler superheat tube repair
Cope	02/01/05	03/21/05	1170.95	Planned	Spring Outage	Spring Outage
McMeekin #1	03/26/04	04/14/05	433.91	Planned	Spring Outage	Planned spring outage for boiler inspection
McMeekin #1	10/22/05	10/29/05	153.68	Planned	Fall Outage	Scheduled fall maintenance
McMeekin #2	03/11/05	03/19/05	177.60	Planned	Spring Outage	Scheduled spring maintenance
McMeekin #2	03/30/05	04/05/05	142.23	Maintenance	Tube Leak	Unit was taken off line due to tube leak
McMeekin #2	11/01/05	11/07/05	152.50	Planned	Fall Outage	Planned fall outage for boiler inspection
McMeekin #2	01/10/06	01/18/06	184.43	Maintenance	Turbine Control Valve	Turbine control valve repaired
Urquhart #3	02/04/05	03/30/05	1290.10	Planned	Maintenance	Unit was taken off-line to perform a variety of maintenance
Wateree #1	04/09/05	04/17/05	207.92	Planned	Spring Outage	Scheduled spring maintenance
Wateree #1	10/05/05	10/13/05	199.75	Planned	Fall Outage	Scheduled fall maintenance
Wateree #2	04/22/05	05/01/05	205.35	Planned	Spring Outage	Scheduled spring maintenance
Wateree #2	11/05/05	11/13/05	193.88	Planned	Fall Outage	Scheduled fall maintenance
Williams	04/09/05	04/16/05	185.77	Planned	Spring Outage	Scheduled spring maintenance
Williams	10/22/05	10/31/05	228.88	Planned	Fall Outage	Scheduled fall maintenance

**EXHIBIT ARW-2
Page 1 of 2**

Prepared by ORS

**Office of Regulatory Staff
V.C. Summer Nuclear Unit Outage Report for
South Carolina Electric and Gas Company**

NO.	DATE OFF	DATE ON	HOURS	TYPE	REASON FOR OUTAGE	CORRECTIVE ACTION
1	04/23/05	06/01/05	958.10	Scheduled	Refueling Outage	Completed Refueling
2	08/25/05	08/27/05	53.85	Forced	Reactor tripped due to failure of the "B" condensate pump motor	Rebuild pump motor

**EXHIBIT ARW-2
Page 2 of 2**

Prepared by ORS

**Office of Regulatory Staff
Generation Mix Report for
South Carolina Electric and Gas Company**

(February 1, 2005 - January 31, 2006)

<u>MONTH</u>	<u>PERCENTAGE</u>			
	<u>FOSSIL</u>	<u>NUCLEAR</u>	<u>COMBINED CYCLE</u>	<u>HYDRO</u>
2005				
Feburary	67	24	5	4
March	65	24	6	5
April	69	19	5	7
May	86	0	8	6
June	68	18	8	6
July	62	18	15	5
August	64	15	17	4
September	68	19	8	5
October	69	24	2	5
November	73	23	0	4
Decemeber	69	22	5	4
January (2006)	69	24	1	6

Prepared by ORS

**Office of Regulatory Staff
Generation Statistics for Major Plants for
South Carolina Electric and Gas Company**

(February 1, 2005 - January 31, 2006)

PLANT	TYPE FUEL	AVERAGE FUEL COST (CENTS/KWH*)	GENERATION (MWH)
Summer	Nuclear	0.45	4,980,478
McMeekin	Coal	2.28	1,760,196
Williams	Coal	2.28	4,838,793
Wateree	Coal	2.36	5,094,722
Urquhart	Coal	2.41	607,077
Canadys	Coal	2.71	2,082,623
Cope	Coal	2.22	3,032,425
Urquhart CC	Gas	9.73	344,212
Jasper CC	Gas	7.93	1,576,183

(*) The average fuel costs for coal-fired plants include oil and/or gas cost for start-up and flame stabilization.

Prepared by ORS

Office of Regulatory Staff
SC Retail Comparison of Estimated to Actual Energy Sales
for South Carolina Electric and Gas Company

	2005	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUN</u>	<u>JUL</u>	<u>AUG</u>	<u>SEP</u>	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>	2006	<u>TOTAL</u>
FEB												<u>IAN</u>	
[1] ESTIMATED SALES [MWH]	1,722,000	1,641,000	1,565,000	1,709,000	1,967,000	2,169,000	2,185,000	2,093,000	1,758,000	1,598,000	1,723,000	1,856,000	21,986,000
[2] ACTUAL SALES [MWH]	1,738,923	1,696,887	1,562,685	1,568,079	1,885,490	2,057,504	2,167,554	2,168,680	1,907,874	1,535,662	1,694,890	1,786,189	21,770,417
[3] AMOUNT DIFFERENCE [1]-[2]	-16,923	-55,887	2,315	140,921	81,510	111,496	17,446	-75,680	-149,874	62,338	28,110	69,811	215,583
[4] PERCENT DIFFERENCE [3]/[2]	-0.97%	-3.29%	0.15%	8.99%	4.32%	5.42%	0.80%	-3.49%	-7.86%	4.06%	1.66%	3.91%	0.99%

Prepared by ORS

EXHIBIT ARW-5

Office of Regulatory Staff
SC Retail Comparison of Estimated to Actual Fuel Cost (Cents/Kwh)
for South Carolina Electric and Gas Company

	2005	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUN</u>	<u>JUL</u>	<u>AUG</u>	<u>SEP</u>	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>	2006	<u>AVERAGE</u>
	<u>FEB</u>											<u>JAN</u>	
[1] ORIGINAL PROJECTION	2.0099	2.1459	2.2893	2.9872	2.4059	2.5465	2.4470	2.0162	1.9975	2.0997	2.1927	2.2303	2.2870
[2] ACTUAL EXPERIENCE	1.9410	2.0900	2.2393	2.9595	2.3422	2.8771	2.9545	2.3982	2.0277	2.1437	2.3913	1.9091	2.3721
[3] AMOUNT IN BASE	1.7640	1.7640	1.7640	2.2560	2.2560	2.2560	2.2560	2.2560	2.2560	2.2560	2.2560	2.2560	2.2560
[4] VARIANCE FROM ACTUAL [1-2]/[2]	3.55%	2.67%	2.23%	0.94%	2.72%	-11.49%	-17.18%	-15.93%	-1.49%	-2.05%	-8.31%	-16.82%	-3.59%

Prepared by ORS

EXHIBIT ARW- 6

Office of Regulatory Staff

History of Cumulative Recovery Account Report
for South Carolina Electric and Gas Company

<u>PERIOD ENDING</u>	<u>OVER (UNDER) \$</u>
January 1979 – Automatic Fuel Adjustment in Effect	
July 1979	4,427,600
April 1980	7,608,796
October 1980	(462,050)
April 1981	2,188,451
October 1981	(10,213,138)
April 1982	5,164,628
October 1982	9,937,268
April 1983	9,767,185
October 1983	(4,527,441)
April 1984	(2,646,395)
October 1984	(3,211,158)
April 1985	(9,545,054)
October 1985	(6,115,435)
April 1986	2,474,301
October 1986	(540,455)
April 1987	(353,393)
October 1987	(3,163,517)
April 1988	9,247,139
October 1988	2,717,342
April 1989	(5,665,737)
October 1989	(8,777,726)
April 1990	(5,288,612)
October 1990	6,536,591
April 1991	7,180,922
October 1991	4,160,275
April 1992	15,835,472
October 1992	15,449,670
April 1993	16,006,551
October 1993	10,069,457
April 1994	2,646,301
October 1994	(265,302)
April 1995	6,622,597
October 1995	4,202,766
February 1997	4,914,169
February 1998	596,797
February 1999	(1,303,094)
February 2000	(124,599)
February 2001	(60,454,498)
February 2002	(16,421,821)
February 2003	(17,429,464)
February 2004	(20,532,126)
January 2005	(23,979,198)
January 2006	(54,743,186)

Average Weekly Coal Commodity Spot Prices Business Week Ended February 17, 2006

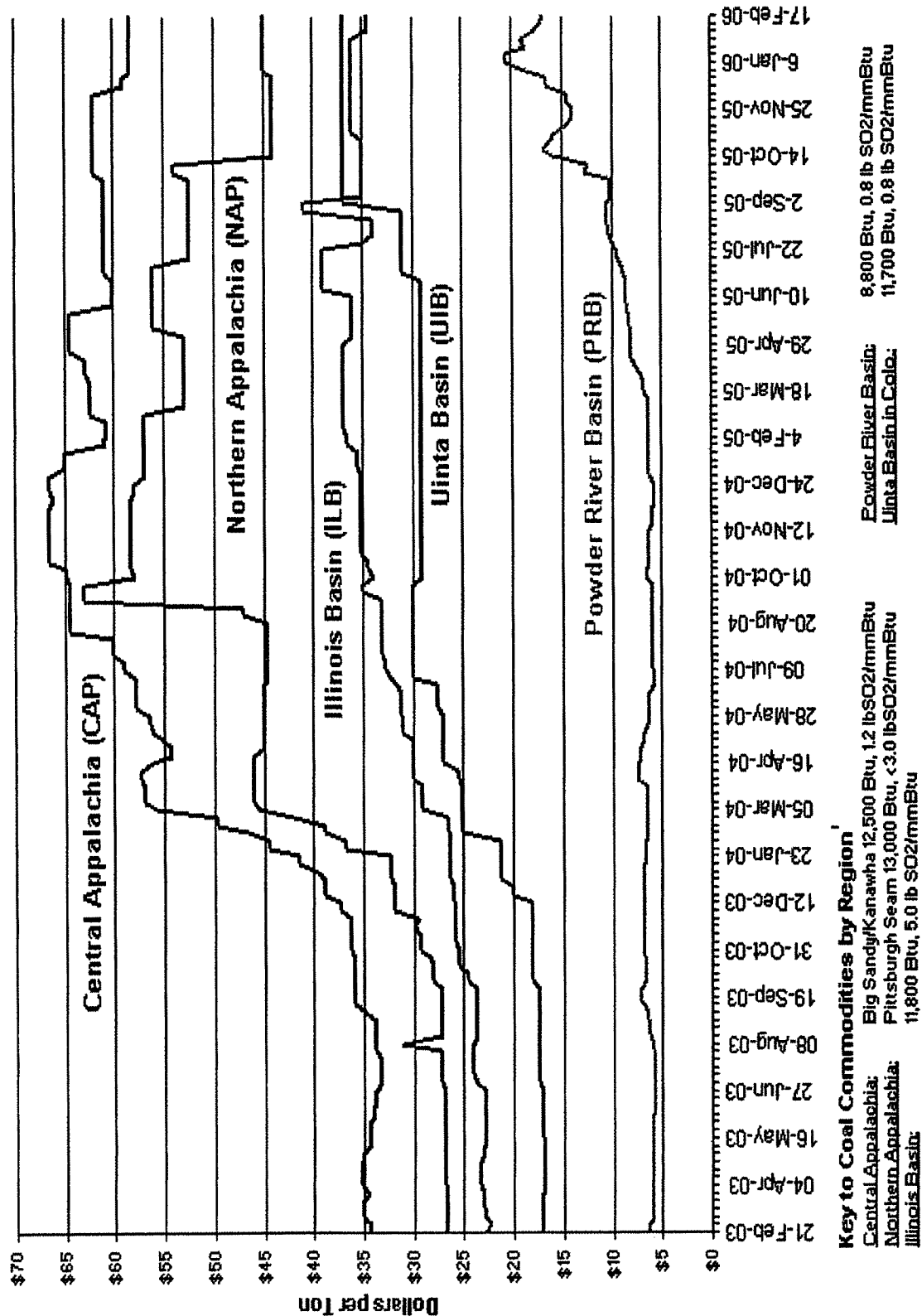


EXHIBIT ARW-8

Office of Regulatory Staff

EXHIBIT ARW-9

Base Fuel Rate

**Projected Period: May 2006 through April 2007
for South Carolina Electric & Gas Company**

Projected Data

Cost of Fuel (\$000)	\$603,275
System Sales (Gwh)	23,985
Average Cost (Cents/Kwh)	2.515

Collections

Under Recovery through April 2006 spread-out over 2 years (\$000) (or \$38,488/2)	19,244
Projected Retail Sales May 2006 through April 2007 (Gwh)	22,470
Average Cost (Cents/Kwh)	0.086

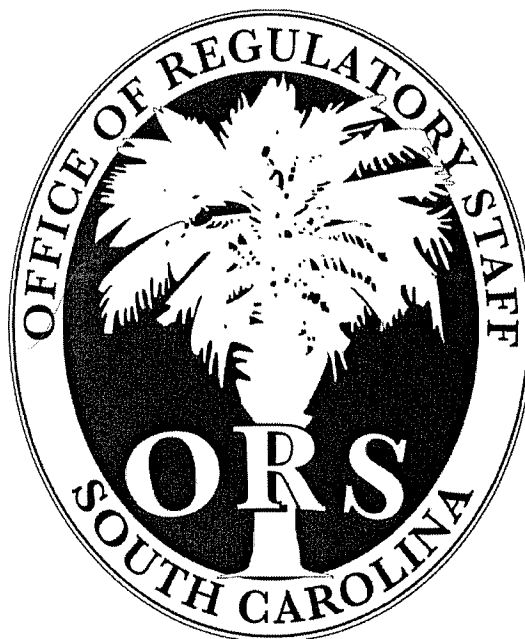
Base Cost (Cents/Kwh)

Projected Period Average Fuel Cost	2.515
Adjustment for Fixed Natural Gas Transportation Charge Moved to Base Rates	(0.085)
Adjusted Projected Period Average Fuel Cost	2.430
Under Recovery Rate	0.086
Recommended Base Fuel Rate for Projected Period	<u><u>2.516</u></u>

Prepared by ORS

THE OFFICE OF REGULATORY STAFF
DIRECT TESTIMONY AND EXHIBITS
OF

Jacqueline R. Cherry



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DOCKET NO. 2006-2-E
South Carolina Electric and Gas Company
Annual Review

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TESTIMONY OF JACQUELINE R. CHERRY

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2006-2-E

IN RE: SOUTH CAROLINA ELECTRIC & GAS COMPANY

Q. PLEASE STATE FOR THE RECORD YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Jacqueline R. Cherry. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina, 29201. I am employed by the Office of Regulatory Staff ("ORS") in the Audit Department, as an Audit Manager.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a B.S. Degree in Business Administration, with a major in Accounting from Johnson C. Smith University in 1976. I was employed by the Office of Regulatory Staff in October 2004. I have over 25 years of experience auditing utility companies, previously, for the Public Service Commission of South Carolina. I have participated in cases involving gas, electric, telephone, water and wastewater utilities.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

1 **A.** The purpose of my testimony is to summarize the results of ORS Audit
2 Staff's examination of South Carolina Electric & Gas Company's ("the
3 Company") Fuel Adjustment Clause operation for the period February
4 2005 through April 2006. The findings of the examination are set forth
5 below and in the exhibits attached to this testimony.

6 **Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR PREFILED**
7 **TESTIMONY.**

8 **A.** I have attached the Audit Report of the Office of Regulatory Staff for
9 Docket No. 2006-2-E, South Carolina Electric & Gas Company's Annual
10 Review of Base Rates for Fuel Costs. The contents of the Audit Report
11 were either prepared by me or were prepared under my direction and
12 supervision.

13 **Q. WHAT WAS THE SCOPE OF YOUR AUDIT?**

14 **A.** ORS Audit Staff traced the fuel information as filed in the Company's
15 required monthly reports to the Company's books and records. The
16 current fuel review period covered the period February 2005 through
17 April 2006. However, the ORS Audit Staff did not examine the months of
18 February, March and April 2006 because the per book figures were not
19 available. Estimated figures were used for those months. The purpose
20 of the audit was to determine if South Carolina Electric & Gas Company
21 had computed and applied the monthly Fuel Adjustment Clause in
22 accordance with the approved clause and S.C. Code Ann. §58-27-865.

1 To accomplish this, ORS examined the components surrounding the
2 operation of the clause.

3 **Q. WHAT WERE THE STEPS THAT ORS EMPLOYED WITHIN THE**
4 **SCOPE OF THE AUDIT?**

5 **A.** The examination consisted of:

- 6 1. Analyzing the Fuel Stock Account - Account # 151
- 7 2. Sampling Receipts to the Fuel Stock Account - Account # 151
- 8 3. Verifying Charges to Nuclear Fuel Expense - Account # 518
- 9 4. Verifying Purchased & Interchange Power Fuel Costs
- 10 5. Verifying KWH Sales
- 11 6. Analyzing Spot Coal Purchasing Procedures
- 12 7. Recalculating the Fuel Adjustment Factors and Verifying the
- 13 Deferred Fuel Costs
- 14 8. Recalculating the True-up for the Over/Under-Recovered Fuel
- 15 Costs
- 16 9. Verifying the Details of the Company's Fuel Costs

17 **Q. WITH REGARD TO THE TRUE-UP OF OVER/UNDER-RECOVERED**
18 **FUEL COSTS, WOULD YOU PLEASE ELABORATE ON ORS AUDIT**
19 **STAFF'S COMPUTATION?**

20 **A.** ORS analyzed the cumulative over/under-recovery of fuel costs that the
21 Company incurred for the period February 2005 through January 2006.
22 The cumulative under-recovery amount totaled (\$54,743,186). ORS
23 then added the projected over-recovery of \$3,670,100 for the month of
24 February 2006, the projected over-recovery of \$4,287,960 for the month
25 of March 2006 and the projected over-recovery of \$3,545,940 for April

1 2006 and included the monthly calculation amount of \$1,583,583 for the
2 Urquhart and Jasper Fixed Capacity Charges for each of the estimated
3 months to arrive at a cumulative under-recovery of (\$38,488,437). The
4 Company's cumulative under-recovery as of April 2006, per its
5 testimony in Docket No. 2006-2-E {Exhibit No. – (JRH-1)}, totals
6 (\$38,394,084). The difference between the Company's and ORS's
7 cumulative under-recovery as of estimated April 2006 totals (\$94,353).

8 It should be noted that ORS's cumulative under-recovery of fuel
9 costs as of actual January 2006 totaled (\$54,743,186). The Company's
10 cumulative under-recovery total as of actual January 2006 totaled
11 (\$54,648,833). The difference between the Company's and ORS's
12 cumulative under-recovery as of actual January 2006 also totals
13 (\$94,353). ORS and the Company reflected various differences in the
14 monthly Deferred Fuel entries due to various adjustments ORS made to
15 such costs as Fossil Fuel and Purchased Power. ORS Audit Exhibit
16 JRC-7, Computation of Unbilled Revenue, consisting of eight pages,
17 provides detailed explanations and reflects the cumulative under-
18 recovery balance as of actual February 2005 through estimated April
19 2006.

20 As stated in South Carolina Electric & Gas Company's Adjustment
21 for Fuel Costs, fuel costs will be included in base rates to the extent
22 determined reasonable and proper by the Commission.

1 Accordingly, the Commission should consider the under-recovery of
2 (\$38,488,437) along with the anticipated fuel costs for the period May 1,
3 2006 through April 30, 2007, for the purpose of determining the base
4 cost of fuel in base rates effective May 1, 2006. This (\$38,488,437)
5 under-recovery figure was provided to ORS's Electric and Gas
6 Regulation Department.

7 **Q. MRS. CHERRY, WOULD YOU PLEASE EXPLAIN YOUR FIRST**
8 **FOOTNOTE ON ORS AUDIT EXHIBIT JRC-7?**

9 **A.** The first footnote addresses ORS Audit Staff's cumulative under-
10 recovery balance brought forward from January 2005 of (\$23,979,198)
11 and as reflected on this exhibit, differs from the Company's beginning
12 cumulative under-recovery balance (from January 2005) of
13 (\$24,190,208) by (\$211,010). This cumulative difference was based on
14 ORS's corrections to the prorated methodology of Urquhart's and
15 Jasper's Fixed Capacity Charges as reflected in the percentage use of
16 the total retail KWH Sales applicable to the Old Base Fuel Factor and
17 the New Base Fuel Factor, as reflected in the last fuel review period. It
18 should be noted that the Company, in its testimony (Docket No. 2006-2-
19 E, Exhibit No. __{JRH-1}), reflects cumulative over-recovery corrections
20 of \$227,840 in February 2005. A portion of this figure, \$211,010 is for
21 the aforementioned corrections that the Company agreed with ORS from
22 the last review period. The remaining \$16,830 is a Company true-up

1 correction to the Deferred Fuel Account (the correction excluded "Other
2 Generation" costs from Fuel Costs) per the ORS 2005 Fuel Audit
3 Review.

4 **Q. MRS. CHERRY, WOULD YOU PLEASE EXPLAIN YOUR SECOND**
5 **FOOTNOTE ON ORS AUDIT EXHIBIT JRC-7?**

6 **A.** The second footnote in Audit Exhibit JRC-7 details that for each month
7 of the current review period, the Urquhart Plant Fixed Capacity Gas
8 Transportation Charge of \$673,417 is deducted, on a retail basis, from
9 each monthly deferred fuel entry per PSC Order No. 2003-38. That PSC
10 Order stated that these Fixed Gas Transportation Capacity Charges
11 would be removed from the S.C. Fuel Adjustment Clause to allow
12 recovery of these charges through base rates (per rate case), rather
13 than through the clause. These charges are fixed monthly charges that
14 do not vary with the consumption of natural gas. As stated in PSC Order
15 No. 2003-38, these charges should "be included in base rates because
16 of the fixed nature of the obligations." As of January 2005, the Jasper
17 Plant Fixed Capacity Charge monthly retail amount of \$910,166, which
18 was prorated in January 2005, was also treated on a retail basis as a
19 reduction to the monthly Deferred Fuel Entries, per PSC Order No.
20 2005-2 (the Company's latest electric rate case order, effective January
21 6, 2005). Based on PSC Order No. 2005-2, as of January 6, 2005, at
22 that time the current review period's fuel factor of 0.01821 was reduced

1 by \$0.00057/kwh to reflect the removal of the Jasper Plant's Fixed
2 Capacity Charge from the fuel clause calculations. Based on the same
3 rationale as PSC Order No. 2003-38, the Jasper Plant Fixed Capacity
4 Charges would be removed from the S.C. Fuel Adjustment Clause to
5 allow recovery of these charges through base rates (per rate case),
6 rather than through the clause. These charges are fixed monthly
7 charges that do not vary with the consumption of natural gas. As stated
8 in PSC Order No. 2005-2, these charges should "be included in base
9 rates because of the fixed nature of the obligations." Therefore, based
10 on cycle billing, two base fuel factors needed to be reflected in February
11 2005 (as was the case in January 2005), the Old Base Fuel Factor
12 (before PSC Order No. 2005-2) of \$0.01821 and the New Base Fuel
13 Factor (as of PSC Order No. 2005-2, dated January 6, 2005) of
14 \$0.01764 (\$0.01821 less \$0.00057). February 2005 Retail KWH Sales
15 were prorated according to those Retail KWH Sales applicable to the Old
16 Base Fuel Factor and to the New Base Fuel Factor. It was determined
17 that 21% of February 2005 Retail KWH Sales are applicable to the Old
18 Base Fuel Factor and 79% are applicable to the New Base Fuel Factor.
19 Using these prorated percentages, ORS Audit Staff and the Company
20 then prorated the Fixed Capacity Charges of the Urquhart Plant and the
21 Jasper Plant. In February 2005, under the Old Base Fuel Factor, the
22 prorated amount for the Urquhart Plant was \$141,418 (\$673,417 x 21%).

1 Under the New Base Fuel Factor, the prorated amount for the Urquhart
2 Plant was \$532,000 (\$673,417 x 79%). The Jasper Plant prorated
3 amount totaled \$719,031 (\$910,166 x 79%). The grand total for the
4 Urquhart and Jasper Plants under the New Base Fuel Factor totaled
5 \$1,251,031.

6 **Q. DID THE COMPANY MAKE ANY ADJUSTMENTS OR TRUE-UPS**
7 **DURING THE ACTUAL REVIEW PERIOD?**

8 **A.** My third footnote in Audit Exhibit JRC-7 explains that in February, March,
9 August, September and December 2005, the Company had true-ups to
10 the cumulative balances of the Deferred Fuel Account due to various
11 Company corrections and revisions to costs such as Fossil Fuel Costs,
12 SO₂ Emissions Allowances and Purchased Power (Purchases and
13 Sales) Costs. ORS examined and recomputed all of these true-ups, with
14 no exceptions noted.

15 **Q. MRS. CHERRY, WOULD YOU PLEASE EXPLAIN YOUR FOURTH**
16 **FOOTNOTE ON ORS AUDIT EXHIBIT JRC-7?**

17 **A.** The fourth footnote in Audit Exhibit JRC-7 explains that in October 2005,
18 in the calculations for Purchased & Interchange Power, the Company did
19 not include one of its power purchases from an invoice that ORS had
20 examined during ORS's audit. ORS has included this purchase which
21 totaled \$537,774. The effect of ORS's inclusion of this expense resulted
22 in a reduction of (\$496,047), on a retail basis, to October 2005's monthly

1 over-recovery amount (which is reflected here as an additional under-
2 recovery). Also, in December 2005 and January 2006, in the calculations
3 for Purchased & Interchange Power, ORS had adjustments to Fossil Fuel
4 Costs which affected Purchased Power. The ORS adjustments to Fossil
5 Fuel Costs will be discussed in my testimony on the ORS fifth footnote.
6 For these two months that had the adjustments to Fossil Fuel Costs,
7 ORS also had to recalculate the purchased power fuel cost rates that are
8 used in computing the fuel costs associated with the KWH's in certain
9 Company purchased power contracts. The Company's Fossil Fuel
10 Burned Costs are one of the fuel costs that are used in that computation.
11 The resultant difference between ORS and the Company, on a System
12 basis, in the amounts of Purchased & Interchange Power for December
13 2005 was a reduction of (\$100). The resultant difference between ORS
14 and the Company, on a System basis, in the amounts of Purchased &
15 Interchange Power for January 2006 was a reduction of (\$95). ORS
16 reflected the effect of these reductions in the respective monthly Deferred
17 Fuel entries in conjunction with the calculations in ORS's fifth footnote.

18 **Q. MRS. CHERRY, WOULD YOU NOW PLEASE EXPLAIN YOUR FIFTH**
19 **FOOTNOTE ON ORS AUDIT EXHIBIT JRC-7?**

20 **A.** Yes, the fifth footnote in Audit Exhibit JRC-7 explains that in
21 December 2005, ORS reflected two adjustments to Fossil Fuel Costs.

1 **(1)** ORS made an adjustment to reflect a true-up correction of (\$51,188)
2 to Canadys Coal expense (based on a revised coal receipt) which had
3 not been adjusted per the Deferred Fuel Account. **(2)** ORS made an
4 adjustment to reflect the implementation of the "Jasper Capacity Sharing
5 Agreement". This agreement is based on PSC Order No. 2005-653, per
6 the SCE&G Gas Rate Case in Docket No. 2005-5-G which reduces Gas
7 Fossil Fuel Costs for a credit totaling (\$142,227). The difference between
8 ORS and the Company, on a System basis, in the amount of Fossil Fuel
9 Costs for December 2005 was (\$193,415). The effect of this reduction to
10 Fossil Fuel Costs and the reduction to Purchased & Interchange Power
11 (from the Fourth Footnote) resulted in a reduction of \$169,489, on a retail
12 basis, to December 2005's monthly under-recovery amount (which is
13 reflected here as an additional over-recovery).

14 In January 2006, ORS also reflected two adjustments to Fossil Fuel
15 Costs. **(1)** ORS made an adjustment to reduce the Urquhart Steam
16 Plant's Gas Costs by (\$115,657). The Company miscalculated this Gas
17 cost. **(2)** ORS made an adjustment to reflect the implementation of the
18 "Jasper Capacity Sharing Agreement". As stated previously, this
19 agreement is based on PSC Order No. 2005-653, per the SCE&G Gas
20 Rate Case in Docket No. 2005-5-G which reduces Gas Fossil Fuel Costs
21 for a credit totaling (\$142,227). The difference between ORS and the
22 Company, on a System basis, in the amount of Fossil Fuel Costs for

1 January 2006 was (\$257,884). The effect of this reduction to Fossil Fuel
2 Costs and the reduction to Purchased & Interchange Power (from the
3 Fourth Footnote) resulted in an additional over-recovery of \$232,205, on
4 a Retail basis, to January 2006's monthly over-recovery amount.

5 **Q. MRS. CHERRY, WOULD YOU PLEASE EXPLAIN YOUR FINAL**
6 **FOOTNOTE ON ORS AUDIT EXHIBIT JRC-7?**

7 **A.** Yes, the sixth footnote in Audit Exhibit JRC-7 states that in the estimated
8 March 2006 Nuclear Fuel Costs, the Company includes a Department of
9 Energy (DOE) Settlement Agreement credit of (\$6,000,000). This
10 agreement dealt with Spent Nuclear Fuel and High Level Waste. This
11 (\$6,000,000) credit represents SCE&G's two-thirds (2/3) V.C. Summer
12 Nuclear Plant ownership portion of the \$9,000,000 settlement. The
13 (\$6,000,000) was netted against the estimated March 2006 Nuclear Fuel
14 Costs of \$2,114,000. Nuclear Fuel Costs for estimated March 2006 was
15 then reflected as a credit amount of (\$3,886,000).

16 **Q. HOW DID THESE FOOTNOTES, PREVIOUSLY DISCUSSED, IMPACT**
17 **THE UNDER-RECOVERY OF FUEL COSTS?**

18 **A.** As mentioned previously, ORS's cumulative under-recovery of fuel costs
19 as of actual January 2006 totaled (\$54,743,186). The Company's
20 cumulative under-recovery total as of actual January 2006 totaled
21 (\$54,648,833). ORS's cumulative under-recovery of fuel costs as of
22 estimated April 2006 totaled (\$38,488,437). The Company's cumulative

1 under-recovery total as of estimated April 2006 totaled (\$38,394,084).
2 The difference between the Company's and ORS's cumulative under-
3 recovery as of actual January 2006 and as of estimated April 2006
4 totaled (\$94,353). Per ORS Audit Exhibit JRC-7, this (\$94,353)
5 represents an increase in the Company's under-recovery balance.

6 **Q. MRS. CHERRY, WOULD YOU PLEASE DESCRIBE THE ORS AUDIT**
7 **STAFF EXHIBITS?**

8 **A.** ORS prepared exhibits from South Carolina Electric & Gas Company's
9 books and records reflecting fuel costs during the review period.
10 Specifically, these exhibits are as follows:

11 Exhibit JRC-1: Total Received and Weighted Average Cost

12 Exhibit JRC-2: Received Coal - Cost Per Ton (Per Plant)

13 Exhibit JRC-3: Received Coal - Cost Per Ton Comparison

14 Exhibit JRC-4: Burned Cost - Consumed Generation

15 Exhibit JRC-5: Cost of Fuel

16 Exhibit JRC-6: Factor Computation

17 Exhibit JRC-7: Computation of Unbilled Revenue

18 **Q. MRS. CHERRY, WHAT WERE THE RESULTS OF THE ORS AUDIT**
19 **DEPARTMENT'S REVIEW?**

20 **A.** Based on the ORS Audit Staff's examination of South Carolina Electric &
21 Gas Company's books and records, and the utilization of the fuel cost
22 recovery mechanism as directed by the Commission, the ORS Audit

1 Department is of the opinion that with the previously discussed ORS
2 adjustments, the Company's books and records accurately reflect the fuel
3 costs incurred by the Company in accordance with previous Commission
4 orders and with S.C. Code Ann. §58-27-865.

5 **Q. MRS. CHERRY, DOES THIS CONCLUDE YOUR TESTIMONY?**

6 **A.** Yes, it does.

**REPORT OF THE AUDIT DEPARTMENT
THE OFFICE OF REGULATORY STAFF**

DOCKET NO. 2006-2-E

SOUTH CAROLINA ELECTRIC & GAS COMPANY

REPORT OF THE AUDIT DEPARTMENT

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2006-2-E

SOUTH CAROLINA ELECTRIC & GAS COMPANY

ANNUAL REVIEW OF BASE RATES FOR FUEL COSTS

**REVIEW PERIOD: FEBRUARY 1, 2005 – JANUARY 31, 2006 (ACTUAL)
FEBRUARY 1, 2006 – APRIL 30, 2006 (ESTIMATED)**

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Note: All of the ORS Audit Exhibits were prepared by the ORS Audit Staff.

REPORT OF THE AUDIT DEPARTMENT
DOCKET NO. 2006-2-E
SOUTH CAROLINA ELECTRIC & GAS COMPANY
ANNUAL REVIEW OF BASE RATES FOR FUEL COSTS

INTRODUCTION

The Office of Regulatory Staff's (ORS) Audit Department has made an examination of the books and records of South Carolina Electric & Gas Company, Columbia, South Carolina, relative to the Public Service Commission's requirement under Docket No. 2006-2-E and S.C. Code Ann. §58-27-865, that periodic hearings be conducted before the Commission concerning the Adjustment of Base Rates for Fuel Costs.

CURRENT REVIEW PERIOD

The current examination of South Carolina Electric & Gas Company's retail Fuel Adjustment Clause covered the period of February 2005 through April 2006. However, the ORS Audit Staff did not examine the months of February, March, and April 2006 because the per book figures were not available during ORS's audit. The amounts of over/under-recovery for February 2006, March 2006 and April 2006 were estimated for the purpose of adjusting base rates effective May 1, 2006. The estimates will be trued-up at South Carolina Electric & Gas Company's ("the Company") next hearing.

SCOPE OF EXAMINATION

The ORS Audit Department's examination consisted of:

1. Analyzing the Fuel Stock Account – Account #151

2. Sampling Receipts to the Fuel Stock Account – Account # 151
3. Verifying Charges to Nuclear Fuel Expense – Account # 518
4. Verifying Purchased and Interchange Power Fuel Costs
5. Verifying KWH Sales
6. Analyzing Spot Coal Purchasing Procedures
7. Recalculating the Fuel Adjustment Factors and Verifying the Deferred Fuel Costs
8. Recalculating the True-up for the Over/Under-Recovered Fuel Costs
9. Verifying the Details of the Company's Fuel Costs

1. ANALYZING THE FUEL STOCK ACCOUNT – ACCOUNT # 151

ORS's analysis of the Fuel Stock Account consisted of tracing receipts and issues from the fuel management system to the General Ledger, reviewing monthly journal entries originating in fuel accounting, and ensuring that only proper charges are entered in the Company's computation of fuel costs for purposes of adjusting base rates for fuel costs.

2. SAMPLING RECEIPTS TO THE FUEL STOCK ACCOUNT – ACCOUNT # 151

ORS's sample of coal receipts to the Fuel Stock Account consisted of randomly selecting transactions, tracing each of these randomly selected transactions to a coal receiving report, waybill, freight study detailed report, and the fuel management system payment voucher for documentation purposes. It also consisted of recalculating the transactions to insure mathematical accuracy.

3. VERIFYING CHARGES TO NUCLEAR FUEL EXPENSE –

ACCOUNT # 518

ORS traced the expense amounts for nuclear fuel to the books and records for the period February 2005 through January 2006 to verify the accuracy of the expenses to fuel amortization schedules.

4. VERIFYING PURCHASED AND INTERCHANGE POWER FUEL COSTS

ORS verified the Company's Purchased and Interchange Power Fuel Costs to summary sheets provided to the Company's Electric Pricing Department by the Company's Operations Department. Fuel costs, KWH purchases and sales for the period February 2005 through January 2006 were traced to system reports, and on a sample basis, were traced to monthly invoices. ORS Purchased Power figures for February 2005 through January 2006 and the resultant over/under-recovery monthly deferred fuel amounts for February 2005 through January 2006 reflect calculations which comply with S.C. Code Ann. §58-27-865. This statute addresses "fuel costs related to purchased power." Sub-section (A)(2)(b) of the statute stated that the delivered cost of economy purchases, including transmission charges, could be included in Purchased Power Costs if those types of purchases were proven to be "less than the purchasing utility's avoided variable costs for the generation of an equivalent quantity of electric power." The Company's per books economic purchases included wheeling (transmission) charges for the review period which totaled \$219,396. ORS applied this statute to the examined economic purchases along with the applicable avoided costs. ORS Audit Staff noted no exceptions to this portion of Purchased Power Costs. It should be noted that the Company has

implemented an “in-house” procedure that audits the Company’s avoided costs information in relation to the Company’s hourly purchase power records. Since this procedure is performed weekly, it enables the Company to monitor more closely and if needed, to quickly correct its avoided costs versus purchase price transactions.

5. VERIFYING KWH SALES

ORS verified total system sales, as filed in the monthly factor computation, for the months of February 2005 through January 2006. This monthly figure was then used to determine the fuel cost per KWH sold.

6. ANALYZING SPOT COAL PURCHASING PROCEDURES

ORS examined the procedure followed by the Company’s Fuel Procurement Department in soliciting and accepting bids on spot coal. To accomplish this, ORS examined spot coal bids for each month of the audit period.

The Fuel Procurement Department maintains a list of coal vendors from whom bids are solicited. The Company mails each of these coal vendors a letter which states the necessary requirements for the coal the Company seeks and the information needed concerning the coal producer and the fuel quality standards. The Company’s fuel representatives negotiate over the price of the coal and either accept or reject the coal vendor’s offer. The Company’s fuel representatives determine the current market price for spot coal prior to contacting the coal vendors to discuss the vendors’ offers. In this way, the fuel representatives determine the price limits which should be observed when bargaining for coal. Fuel representatives generally consider several factors when

evaluating spot coal bids including the price in \$/MMBTU (including freight), whether the coal is suitable on an operational and environmental basis (for example, the BTU content of the coal offered), and the reliability of the producer. The Company typically receives bids in writing, but telephone, email and fax bids are also received. Upon acceptance of a bid, the Company prepares a confirming order, a copy of which is mailed to the coal vendor. The Company or the vendor, based on negotiations, analyzes the coal for moisture, ash, sulfur, and BTU content and prepares an analysis report, which is sent to the Fuel Procurement Department. The appropriate quality premium or penalty on the coal purchased is determined, and the results are forwarded to the Company's Accounting Section, which in turn, adds a premium or assesses a penalty to the total amount due to the coal vendor.

The Fuel Procurement Department closely monitors the quality of coal shipped by the various producers. If less than guaranteed performance is rendered by a certain producer, the Company's fuel representatives assess this information and consider this when analyzing any future offers received from the supplier.

As previously mentioned, ORS examined spot coal bids received for each month during the review period. The examination included reviewing any bids accepted and also those that were rejected.

During the review period, out of approximately eighty-five bids, the Company accepted twenty-one offers and rejected sixty-four offers.

The total spot coal purchased for the period February 2005 through January 2006 was 561,500 tons.

7. RECALCULATING THE FUEL ADJUSTMENT FACTORS AND VERIFYING THE DEFERRED FUEL COSTS

ORS recomputed the fuel adjustment factors utilizing information obtained from the Company's records.

With reference to fuel cost, ORS verified the Total Fuel Costs for the months of February 2005 through January 2006 to the Company's books and records.

In recomputing the monthly factors, ORS divided the Total Cost of Fuel Burned by Total System Sales to arrive at fuel costs per KWH sales. The base fuel cost per KWH (included in the base rates) is then subtracted from the total fuel cost per KWH sales. The resulting figure represents the fuel cost adjustment above or below base per KWH sales. The South Carolina Retail Jurisdictional KWH deferrals were checked to the Company's records. The actual Deferred Fuel Costs for each month was verified to the Company's Detailed Ledger.

8. RECALCULATING THE TRUE-UP FOR THE OVER/UNDER-RECOVERED FUEL COSTS

ORS analyzed the cumulative over/under-recovery of fuel costs that the Company had incurred for the period February 2005 through January 2006. The cumulative under-recovery amount totaled (\$54,743,186). ORS added the projected over-recovery of \$3,670,100 for the month of February 2006, the projected over-recovery of \$4,287,960 for the month of March 2006, the projected over-recovery of \$3,545,940 for April 2006 and included the monthly calculation amount of \$1,583,583 for the Urquhart and Jasper Fixed Capacity Charges for each of the estimated months to arrive at a cumulative under-

recovery of (\$38,488,437). The Company's cumulative under-recovery as of April 2006, per its testimony in Docket No. 2006-2-E {Exhibit No. – (JRH-1)}, totals (\$38,394,084). The difference between the Company's and ORS's cumulative under-recovery as of estimated April 2006 totals (\$94,353). It should be noted that ORS's cumulative under-recovery of fuel costs as of actual January 2006 totaled (\$54,743,186). The Company's cumulative under-recovery total as of actual January 2006 totaled (\$54,648,833). The difference between the Company's and ORS's cumulative under-recovery as of actual January 2006 also totals (\$94,353). ORS and the Company reflected various differences in the monthly Deferred Fuel entries due to various adjustments the ORS made to such costs as Fossil Fuel and Purchased Power. ORS Audit Exhibit JRC-7, Computation of Unbilled Revenue, consisting of eight pages, provides detailed explanations and reflects the cumulative under-recovery balance as of actual January 2006 and as of estimated April 2006.

As stated in South Carolina Electric & Gas Company's Adjustment for Fuel Costs, fuel costs will be included in base rates to the extent determined reasonable and proper by the Commission.

Accordingly, the Commission should consider the under-recovery of (\$38,488,437) along with the anticipated fuel costs for the period May 1, 2006 through April 30, 2007 for the purpose of determining the base cost of fuel in base rates effective May 1, 2006. The (\$38,488,437) under-recovery figure was provided to the ORS's Electric and Gas Regulation Department.

9. VERIFYING THE DETAILS OF THE COMPANY'S FUEL COSTS

Details of fuel costs are shown in Audit Exhibits JRC-1 through JRC-7.

RESULTS OF EXAMINATION

Based on the ORS Audit Staff's examination of South Carolina Electric & Gas Company's books and records, and the utilization of the fuel costs recovery mechanism as directed by this Commission, the ORS Audit Staff Department is of the opinion that with the previously discussed ORS adjustments per ORS Audit Exhibit JRC-7, the Company's books and records accurately reflect the fuel costs incurred by the Company in accordance with previous Commission orders and with S.C. Code Ann. §58-27-865.

EXHIBITS

Exhibits relative to this report are identified as follows:

EXHIBIT JRC-1: TOTAL RECEIVED AND WEIGHTED AVERAGE COST

This exhibit reflects the total cost for the period February 2005 through January 2006, for the four types of fossil fuel: coal, # 2 oil, propane and natural gas. The Staff has also computed the weighted average cost of each type of fuel.

EXHIBIT JRC-2: RECEIVED COAL - COST PER TON (PER PLANT)

This exhibit shows the received cost per ton for coal at each plant for the period of time from February 2005 through January 2006, in dollars per ton including freight costs.

EXHIBIT JRC-3: RECEIVED COAL – COST PER TON COMPARISON

This exhibit reflects the received cost per ton for coal each month during the period from February 2005 through January 2006 for South Carolina Electric & Gas Company, Duke Power Company, and Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc. ORS has shown for comparison purposes,

the invoice cost per ton, freight cost per ton, total cost per ton and the cost per MBTU.

EXHIBIT JRC-4: BURNED COST - CONSUMED GENERATION

This exhibit reflects the per book cost of burned fuel, including emission allowance expenses, which was used for generation for the period February 2005 through January 2006. The burned cost of each class of fuel is separated and the percentage of total burned computed for each type.

EXHIBIT JRC-5: COST OF FUEL

This exhibit reflects the cost of fuel for the period February 2005 through January 2006.

EXHIBIT JRC-6: FACTOR COMPUTATION

This exhibit reflects the actual computation of the fuel adjustment factor for the period February 2005 through January 2006.

EXHIBIT JRC-7: COMPUTATION OF UNBILLED REVENUE

This exhibit reflects the computation of the unbilled revenue at April 30, 2006. The balance amounts to an under-recovery of (\$38,488,437). This balance represents the difference between actual (with three months estimated) total fuel costs and unbilled fuel costs for the Company's retail customers for the period.

South Carolina Electric & Gas Company
Total Received and Weighted Average Cost
February 2005 - January 2006

<u>Month</u>	<u>Coal</u>	<u>#2 Oil</u>	<u>Propane</u>	<u>Gas</u>	<u>Total Received Cost</u>
	Tons	Gal	Gal	MCF	\$
					\$
Feb-05	582,560	382,705	434	695,271	40,863,515
Mar-05	579,968	207,484	387	903,497	44,477,333
Apr-05	583,004	337,930	-	656,797	42,507,683
May-05	610,794	425,553	510	1,115,713	46,218,477
Jun-05	600,880	90,322	370	1,520,396	50,993,065
Jul-05	603,243	444,521	-	3,167,808	65,029,663
Aug-05	653,853	211,504	482	3,211,297	74,812,011
Sep-05	595,506	462,433	855	1,479,717	62,463,686
Oct-05	568,928	986,080	-	334,037	45,178,754
Nov-05	590,580	845,998	375	69,890	41,337,470
Dec-05	533,705	1,627,908	-	668,718	47,116,681
Jan-06	562,837	1,126,062	-	160,565	40,671,066
Total	7,065,858	7,148,500	3,413	13,983,706	601,669,404
Weighted Average	61.00	1.91	1.38	11.23	

Note: Prepared by the ORS Audit Staff.

South Carolina Electric & Gas Company
Received Coal - Cost Per Ton (Per Plant)
February 2005 - January 2006

Plant	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Canadys	58.48	64.83	71.73	67.98	67.82	67.44	67.93	65.76	66.88	70.29	67.48	68.89
Cope	126.88 *	61.59	61.49	59.86	62.27	60.47	58.57	57.14	58.66	61.32	57.68	59.34
McMeekin	54.17	54.45	58.74	57.25	58.39	59.30	58.64	57.96	59.96	63.17	56.95	57.13
SRS/D Area	61.25	63.00	63.74	68.23	65.38	68.73	64.21	68.37	72.22	74.89	74.15	77.79
SRS Coal at Urquhart	-	-	-	-	-	-	-	-	72.49	75.40	68.30	70.19
Urquhart	61.44	52.47	59.59	59.48	60.05	68.28	58.21	64.21	69.81	58.22	69.39	68.62
Wateree	55.52	61.15	61.57	58.86	65.25	61.04	63.41	62.01	64.33	60.76	62.98	66.59
Williams	65.98	59.60	55.75	53.46	56.93	55.27	59.25	55.79	60.32	61.40	58.91	59.48
Total System	58.66	61.03	60.60	58.80	61.92	59.97	61.24	60.31	63.20	62.44	61.76	62.72

* Includes several adjustments against a small number of received tons (1,349 tons) which distorted the Received Cost Per Ton.

Note: Prepared by the ORS Audit Staff.

South Carolina Electric & Gas Company
Received Coal - Cost Per Ton Comparison
February 2005 - January 2006

<u>South Carolina Electric & Gas Company</u>				
<u>Month</u>	<u>Invoice Cost</u> <u>Per Ton</u>	<u>Freight Cost</u> <u>Per Ton</u>	<u>Total Cost</u> <u>Per Ton</u>	<u>Cost</u> <u>Per MBTU</u>
	\$	\$	\$	\$
Feb-05	43.17	15.49	58.66	2.3205
Mar-05	48.62	12.41	61.03	2.4081
Apr-05	46.79	13.81	60.60	2.3990
May-05	44.95	13.85	58.80	2.3278
Jun-05	46.56	15.36	61.92	2.4429
Jul-05	46.09	13.88	59.97	2.3723
Aug-05	47.54	13.70	61.24	2.4209
Sep-05	46.86	13.45	60.31	2.3682
Oct-05	48.19	15.01	63.20	2.5476
Nov-05	48.51	13.93	62.44	2.4553
Dec-05	46.33	15.43	61.76	2.4826
Jan-06	47.81	14.91	62.72	2.4344

<u>Duke Power Company</u>				
<u>Month</u>	<u>Invoice Cost</u> <u>Per Ton</u>	<u>Freight Cost</u> <u>Per Ton</u>	<u>Total Cost</u> <u>Per Ton</u>	<u>Cost</u> <u>Per MBTU</u>
	\$	\$	\$	\$
Feb-05	37.66	16.29	53.95	2.1993
Mar-05	37.21	17.98	55.19	2.2537
Apr-05	37.29	18.69	55.98	2.2454
May-05	37.80	17.63	55.43	2.2832
Jun-05	40.33	18.62	58.95	2.3457
Jul-05	36.35	18.76	55.11	2.2728
Aug-05	39.32	18.51	57.83	2.4731
Sep-05	38.54	9.92	48.46	2.0194
Oct-05	38.93	18.58	57.51	2.3871
Nov-05	38.84	20.09	58.93	2.5135
Dec-05	39.91	19.21	59.12	2.4599
Jan-06	47.56	21.22	68.78	2.8696

South Carolina Electric & Gas Company
Received Coal - Cost Per Ton Comparison
February 2005 - January 2006

Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.

<u>Month</u>	<u>Invoice Cost Per Ton</u>	<u>Freight Cost Per Ton</u>	<u>Total Cost Per Ton</u>	<u>Cost Per MBTU</u>
	\$	\$	\$	\$
Feb-05	44.43	18.30	62.73	2.5100
Mar-05	47.05	17.69	64.74	2.5980
Apr-05	48.03	19.16	67.19	2.6927
May-05	47.41	19.65	67.06	2.7308
Jun-05	49.55	21.50	71.05	2.8719
Jul-05	46.65	17.84	64.49	2.5956
Aug-05	50.49	17.00	67.49	2.7071
Sep-05	47.50	17.91	65.41	2.6375
Oct-05	51.64	21.47	73.11	2.9536
Nov-05	46.74	18.24	64.98	2.6188
Dec-05	49.02	18.81	67.83	2.7488
Jan-06	50.83	20.39	71.22	2.8848

Note: Prepared by the ORS Audit Staff.

South Carolina Electric & Gas Company
Burned Cost - Consumed Generation
February 2005 - January 2006

Month	Coal		#2 Oil		Propane		Gas		SO2 Emission Allowance		Nuclear		Total Burned Cost	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Feb-05	17,931,424	67.01%	222,212	0.83%	169	0%	6,127,634	22.90%	262,685	0.98%	2,214,383	8.28%	26,758,507	
Mar-05	18,838,896	61.48%	393,004	1.28%	152	0%	8,727,964	28.48%	238,833	0.78%	2,443,482	7.98%	30,642,331	
Apr-05	19,611,000	69.11%	290,645	1.02%	340	0%	6,616,951	23.32%	189,435	0.67%	1,668,074	5.88%	28,376,445	
May-05	28,551,616	73.17%	524,267	1.34%	348	0%	9,624,919	24.67%	282,816	0.72%	37,400	0.10%	39,021,366	
Jun-05	27,687,570	63.29%	331,457	0.76%	493	0%	13,625,601	31.14%	233,069	0.53%	1,874,150	4.28%	43,749,340	
Jul-05	31,337,707	50.55%	227,928	0.37%	376	0%	28,077,974	45.29%	276,666	0.45%	2,070,534	3.34%	61,991,185	
Aug-05	31,465,258	44.91%	2,049,826	2.93%	320	0%	34,381,309	49.07%	356,018	0.51%	1,810,439	2.58%	70,063,170	
Sep-05	28,120,086	49.40%	908,958	1.60%	652	0%	25,543,178	44.87%	304,823	0.53%	2,049,335	3.60%	56,927,032	
Oct-05	25,600,583	73.07%	275,588	0.79%	299	0%	6,776,504	19.34%	256,280	0.73%	2,127,429	6.07%	35,036,683	
Nov-05	24,559,056	81.93%	288,027	0.96%	164	0%	2,787,113	9.30%	287,991	0.96%	2,054,057	6.85%	29,976,408	
Dec-05	27,398,086	62.73%	2,488,746	5.70%	56	0%	11,354,270	26.00%	299,907	0.69%	2,130,687	4.88%	43,671,752	
Jan-06	23,657,462	78.54%	759,140	2.52%	134	0%	3,230,564	10.73%	343,139	1.14%	2,130,846	7.07%	30,121,285	
Totals	304,758,744	61.40%	8,759,798	1.77%	3,503	0%	156,873,981	31.61%	3,331,662	0.67%	22,607,816	4.55%	496,335,504	

Note: Prepared by the ORS Audit Staff.

South Carolina Electric & Gas Company
Cost of Fuel
February 2005 - January 2006

<u>Month</u>	<u>Total Cost of Fuel Burned</u>	<u>Purchased and Interchange Power Fuel Cost</u>	<u>Fuel Cost Recovered Intersystem Sales</u>	<u>Total Fuel Costs</u>
	\$	\$	\$	\$
Feb-05	26,758,507	12,508,169	(3,326,419)	35,940,257
Mar-05	30,642,331	12,196,794	(4,960,930)	37,878,195
Apr-05	28,376,445	11,580,547	(2,650,639)	37,306,353
May-05	39,021,366	13,390,014	(2,563,490)	49,847,890
Jun-05	43,749,340	10,934,021	(7,455,848)	47,227,513
Jul-05	61,991,185	11,214,192	(9,616,433)	63,588,944
Aug-05	70,063,170	12,447,075	(13,987,932)	68,522,313
Sep-05	56,927,032	11,667,602	(13,298,478)	55,296,156
Oct-05	35,036,683	10,595,820	(3,967,652)	41,664,851
Nov-05	29,976,408	11,033,325	(5,668,838)	35,340,895
Dec-05	43,671,752	10,546,577	(10,760,227)	43,458,102
Jan-06	30,121,285	10,091,859	(4,077,103)	36,136,041
Totals	496,335,504	138,205,995	(82,333,989)	552,207,510

Note: Prepared by the ORS Audit Staff.

South Carolina Electric & Gas Company
Factor Computation
February 2005 - January 2006

<u>Month</u>	<u>Total Fuel Costs</u>	<u>Total System Sales Excluding Intersystem Sales</u>	<u>Fuel Cost per KWH Sales</u>	<u>Base Cost Per KWH Included in Rates</u>	<u>Fuel Adjustment Per KWH</u>
	\$	KWH	\$/KWH	\$/KWH	\$/KWH
Feb-05 (1)	35,940,257	1,851,109,764	0.019416	0.01821	(0.00121)
Feb-05 (2)	35,940,257	1,851,109,764	0.019416	0.01764	(0.00178)
Mar-05	37,878,195	1,812,405,680	0.020899	0.01764	(0.00326)
Apr-05	37,306,353	1,666,023,631	0.022392	0.01764	(0.00475)
May-05	49,847,890	1,682,181,751	0.029633	0.02256	(0.00707)
Jun-05	47,227,513	2,015,009,548	0.023438	0.02256	(0.00088)
Jul-05	63,588,944	2,209,423,052	0.028781	0.02256	(0.00622)
Aug-05	68,522,313	2,319,561,664	0.029541	0.02256	(0.00698)
Sep-05	55,296,156	2,305,903,803	0.023980	0.02256	(0.00142)
Oct-05	41,664,851	2,033,872,887	0.020485	0.02256	0.00208
Nov-05	35,340,895	1,648,605,655	0.021437	0.02256	0.00112
Dec-05	43,458,102	1,825,454,106	0.023807	0.02256	(0.00125)
Jan-06	36,136,041	1,906,350,203	0.018956	0.02256	0.00360

(1) Old Base Factor

(2) New Base Factor (Reflects the Commission approved rate of 0.01764, per Commission Order No. 2005-2, which is the Old Base Factor of \$0.01821 less the reduction of \$0.00057/Kwh. This reflects the removal of the Jasper Plant's Fixed Capacity Charge from the Fuel Clause.)

Note: Prepared by the ORS Audit Staff.

South Carolina Electric & Gas Company
Computation of Unbilled Revenue
February 2005 - April 2006

	Old Base Factor February 2005	New Base Factor February 2005	March 2005	April 2005	May 2005	June 2005	July 2005	August 2005
Fossil Fuel Burned (5)	24,544,124	24,544,124	28,198,849	26,708,371	38,983,966	41,878,190	59,920,651	68,252,731
Nuclear Fuel (6)	2,214,383	2,214,383	2,443,482	1,668,074	37,400	1,871,150	2,070,534	1,810,439
Purchased & Interchange Power (4)	12,508,169	12,508,169	12,196,794	11,580,547	13,390,014	10,934,021	11,214,192	12,447,075
Sub-Total	39,266,676	39,266,676	42,839,125	39,956,992	52,411,380	54,683,361	73,205,377	82,510,245
Less: Intersystem Sales	3,326,419	3,326,419	4,960,930	2,650,639	2,563,490	7,455,848	9,616,433	13,987,932
Total Fuel Costs	35,940,257	35,940,257	37,878,195	37,306,353	49,847,890	47,227,513	63,588,944	68,522,313
Total System KWH Sales Excluding Intersystem Sales	1,851,109,764	1,851,109,764	1,812,405,680	1,666,023,631	1,682,181,751	2,015,009,548	2,209,423,052	2,319,561,664
\$/KWH Sales	0.019416	0.019416	0.020899	0.022392	0.029633	0.023438	0.028781	0.029541
Less: Base	0.018210	0.017640	0.017640	0.017640	0.022560	0.022560	0.022560	0.022560
Fuel Adjustment Per KWH	(0.00121)	(0.00178)	(0.00326)	(0.00475)	(0.00707)	(0.00088)	(0.00622)	(0.00698)
Unbilled Revenue KWH Sales	359,485,943	1,379,436,719	1,696,887,251	1,562,684,969	1,568,079,372	1,885,490,149	2,057,503,937	2,167,554,267
Deferred Fuel Entry	(434,978)	(2,455,397)	(5,531,852)	(7,422,754)	(11,086,321)	(1,659,231)	(12,797,674)	(15,129,529)
Company's True-Up Adjustments (Prior Months) (3)		16,830	35,414	-	-	-	-	105,327
Less: Fixed Capacity Charge (2)	141,418	1,251,031	1,583,583	1,583,583	1,583,583	1,583,583	1,583,583	1,583,583
January 2005 (1)	(23,979,198)	(1)						
Cumulative Over/(Under) Recovery		(25,460,294)	(29,373,149)	(35,212,320)	(44,715,058)	(44,790,706)	(56,004,797)	(69,445,416)

Please Note:

In Audit Exhibit JRC-7, ORS reflects Over-Recovery amounts without parentheses and reflects (Under)-Recovery amounts within parentheses.

ORS would like to emphasize that the Urquhart Plant (Combined Cycle) Fixed Capacity Charge monthly amount of \$ 673,417 is treated, per PSC Order No. 2003-38, on a retail basis as a reduction to the monthly Deferred Fuel Entries. The Jasper Plant (Combined Cycle) Fixed Capacity Charge monthly amount of \$910,166, prorated for February 2005, is also treated, per PSC Order No. 2005-2, on a retail basis as a reduction to the monthly Deferred Fuel Entries.

*Explanation of Footnotes on Audit Exhibit JRC-7, Page 3 through Page 8.

Note: Prepared by the ORS Audit Staff.

South Carolina Electric & Gas Company
Computation of Unbilled Revenue
February 2005 - April 2006

	ACTUAL					ESTIMATED				
	September 2005	October 2005	November 2005	December 2005	January 2006	February 2006	March 2006	April 2006		
Fossil Fuel Burned (5)	54,877,697	32,909,254	27,922,351	41,541,065	27,990,439	29,532,000	38,777,000	30,234,000		
Nuclear Fuel (6)	2,049,335	2,127,429	2,054,057	2,130,687	2,130,846	1,904,000	(3,886,000)	2,042,000		
Purchased & Interchange Power (4)	11,667,602	10,595,820	11,033,325	10,546,577	10,091,859	10,744,000	4,923,000	10,571,000		
Sub-Total	68,594,634	45,632,503	41,009,733	54,218,329	40,213,144	42,180,000	39,814,000	42,847,000		
Less: Intersystem Sales	13,298,478	3,967,652	5,668,838	10,760,227	4,077,103	4,786,000	4,323,000	8,689,000		
Total Fuel Costs	55,296,156	41,664,851	35,340,895	43,458,102	36,136,041	37,394,000	35,491,000	34,158,000		
Total System KWH Sales Excluding Intersystem Sales	2,305,903,803	2,033,872,887	1,648,605,655	1,825,454,106	1,906,350,203	1,831,000,000	1,776,000,000	1,683,000,000		
\$/KWH Sales	0.023980	0.020485	0.021437	0.023807	0.018956	0.020423	0.019984	0.020296		
Less: Base	0.022560	0.022560	0.022560	0.022560	0.022560	0.022560	0.022560	0.022560		
Fuel Adjustment Per KWH	(0.00142)	0.00208	0.00112	(0.00125)	0.00360	0.00214	0.00258	0.00226		
Unbilled Revenue KWH Sales	2,168,679,800	1,907,873,998	1,535,662,470	1,694,889,969	1,786,188,846	1,715,000,000	1,662,000,000	1,569,000,000		
Deferred Fuel Entry	(3,079,525)	3,968,378	1,719,942	(2,118,612)	6,430,280	3,670,100	4,287,960	3,545,940		
Company's True-Up Adjustments (Prior Months) (3)	(21,676)	-	-	(114,472)	-	-	-	-		
Less: Fixed Capacity Charge (2)	1,583,583	1,583,583	1,583,583	1,583,583	1,583,583	1,583,583	1,583,583	1,583,583		
August 2005 - (pg.1 of 8)	(69,445,416)									
Cumulative Over/(Under) Recovery	(70,963,034)	(65,411,073)	(62,107,548)	(62,757,049)	(54,743,186)	(49,489,503)	(43,617,960)	(38,488,437)		

Please Note:

In Audit Exhibit JRC-7, ORS reflects Over-Recovery amounts without parentheses and reflects (Under)-Recovery amounts within parentheses.

ORS would like to emphasize that the Urquhart Plant (Combined Cycle) Fixed Capacity Charge monthly amount of \$ 673,417 is treated, per PSC Order No. 2003-38, on a retail basis as a reduction to the monthly Deferred Fuel Entries. The Jasper Plant (Combined Cycle) Fixed Capacity Charge monthly amount of \$910,166, prorated for February 2005, is also treated, per PSC Order No. 2005-2, on a retail basis as a reduction to the monthly Deferred Fuel Entries.

*Explanation of Footnotes on Audit Exhibit JRC-7, Page 3 through Page 8.

Note: Prepared by the ORS Audit Staff.

**South Carolina Electric & Gas Company
Computation of Unbilled Revenue
February 2005 – April 2006**

Explanation of Footnotes to Audit Exhibit JRC-7:

- (1) ORS's cumulative under-recovery balance brought forward from January 2005 of (\$23,979,198), as reflected on this exhibit, differs from the Company's beginning cumulative under-recovery balance (from January 2005) of (\$24,190,208) by (\$211,010). This cumulative difference was based on ORS's corrections to the prorated methodology of Urquhart's and Jasper's Fixed Capacity Charges as reflected in the percentage use of the total retail KWH Sales applicable to the Old Base Fuel Factor and the New Base Fuel Factor, as reflected in the last fuel review period. It should be noted that the Company, in its testimony (Docket No. 2006-2-E, Exhibit No. __{JRH-1}), reflects cumulative over-recovery corrections of \$227,840 in February 2005. A portion of this figure, \$211,010 is for the aforementioned corrections that the Company agreed with ORS from the last review period. The remaining \$16,830 is a Company true-up correction to the Deferred Fuel Account (the correction excluded "Other Generation" costs from Fuel Costs) per the ORS 2005 Fuel Audit Review.

Note: ORS Cum. Under-Recovery Balance @ 1/05	(\$23,979,198)
Company's Cum. Under-Recovery Bal. @ 1/05	<u>(\$24,190,208)</u>
Over-Recovery Entry-- To Reduce the Under-Recovery Difference	<u>\$ 211,010</u>
(Per the Company's Testimony)	

- (2) As explained in the 2005 ORS Fuel Review, for each month of the current review period, the Urquhart Plant Fixed Capacity Gas Transportation Charge of \$673,417 is deducted, on a retail basis, from each monthly deferred fuel entry per PSC Order No. 2003-38. That PSC Order stated that these Fixed Gas Transportation Capacity Charges would be removed from the S.C. Fuel Adjustment Clause to allow recovery of these charges through base rates (per rate case), rather than through the clause. These charges are fixed monthly charges that do not vary with the consumption of natural gas. As stated in PSC Order No. 2003-38, these charges should "be included in base rates because of the fixed nature of the obligations." As of January 2005, the Jasper Plant Fixed Capacity Charge monthly retail amount of \$910,166, which was prorated in January 2005, was also treated on a retail basis as a reduction to the monthly Deferred Fuel Entries, per PSC Order No. 2005-2 (the Company's latest electric rate case order, effective January 6, 2005). Based on PSC Order No. 2005-2, as of January 6, 2005, at that time the current review period's fuel factor of 0.01821 was reduced by \$0.00057/kwh to reflect the removal of the Jasper Plant's Fixed Capacity Charge from the fuel clause calculations. Based on the same rationale as PSC Order No. 2003-38, the Jasper

South Carolina Electric & Gas Company
Computation of Unbilled Revenue
February 2005 – April 2006

Explanation of Footnotes to Audit Exhibit JRC-7:

(2) Continued:

Plant Fixed Capacity Charges would be removed from the S.C. Fuel Adjustment Clause to allow recovery of these charges through base rates (per rate case), rather than through the clause. These charges are fixed monthly charges that do not vary with the consumption of natural gas. As stated in PSC Order No. 2005-2, these charges should “be included in base rates because of the fixed nature of the obligations.” Therefore, based on cycle billing, two base fuel factors needed to be reflected in February 2005 (as was the case in January 2005), the Old Base Fuel Factor (before PSC Order No. 2005-2) of \$0.01821 and the New Base Fuel Factor (as of PSC Order No. 2005-2, dated January 6, 2005) of \$0.01764 (\$0.01821 less \$0.00057). February 2005 Retail KWH Sales were prorated according to those Retail KWH Sales applicable to the Old Base Fuel Factor and to the New Base Fuel Factor. It was determined that 21% of February 2005 Retail KWH Sales are applicable to the Old Base Fuel Factor and 79% are applicable to the New Base Fuel Factor. Using these prorated percentages, ORS Audit Staff and the Company then prorated the Fixed Capacity Charges of the Urquhart Plant and the Jasper Plant. In February 2005, under the Old Base Fuel Factor, the prorated amount for the Urquhart Plant was \$141,418 (\$673,417 x 21%). Under the New Base Fuel Factor, the prorated amount for the Urquhart Plant was \$532,000 (\$673,417 x 79%). The Jasper Plant prorated amount totaled \$719,031 (\$910,166 x 79%). The grand total for the Urquhart and Jasper Plants under the New Base Fuel Factor totaled \$1,251,031.

- (3) In February, March, August, September and December 2005, the Company had true-ups to the cumulative balances of the Deferred Fuel Account due to various Company corrections and revisions to costs such as Fossil Fuel Costs, SO₂ Emissions Allowances and Purchased Power (Purchases and Sales) Costs. ORS examined and recomputed all of these true-ups, with no exceptions noted. For ORS’s report, the Company’s true-up amount reflected in February 2005 on ORS’s Audit Exhibit JRC-7 is the Over-Recovery adjustment of \$16,830. As mentioned in ORS’s Explanation # (1), the Company reflected an Over-Recovery true-up adjustment to reduce the cumulative Under-Recovery difference between the ORS and the Company. It was not necessary for the ORS Staff to make this adjustment because the ORS figures already reflected updated information.

South Carolina Electric & Gas Company
Computation of Unbilled Revenue
February 2005 -- April 2006

Explanation of Footnotes to Audit Exhibit JRC-7:

- (4) (a) In October 2005, in the calculations for Purchased & Interchange Power, the Company did not include one of its power purchases from an invoice that ORS had examined during ORS's audit. ORS has included this purchase which totaled \$537,774. The difference between ORS and the Company, on a System basis, in the amounts of Purchased & Interchange Power for 10/05 was:

ORS	\$10,595,820
Company	<u>\$10,058,045</u>
Difference	\$ <u>537,775</u> (\$1 Rounding Diff.)

The resultant effect on the 10/05 monthly entry of the Deferred Fuel Account, on a retail basis, was:

ORS—Over-Recovery	\$5,551,961
Company—Over-Recovery	<u>\$6,048,008</u>
Over-Recovery Difference	(\$ <u>496,047</u>) (ORS Reduces the Over-Recovery) (Reflected as an Under-Recovery)

The resultant effect on the cumulative balance of the Deferred Fuel Account as of 10/05 was:

ORS—Under-Recovery	(\$65,411,073)
Company—Under-Recovery	<u>(\$64,915,026)</u>
Under-Recovery Difference	(\$ <u>496,047</u>) (ORS Additional Under-Recovery)

- (b) In December 2005 and January 2006, ORS made adjustments to Fossil Fuel Costs which will be discussed in # (5a) and # (5b). For these two months that had adjustments to Fossil Fuel Costs, ORS also had to recalculate the purchased power fuel cost rates that are used in computing the fuel costs associated with the KWH's in certain Company purchased power contracts. The Company's Fossil Fuel Burned Costs are one of the fuel costs that are used in that computation. The difference between ORS and the Company, on a System basis, in the amounts of Purchased & Interchange Power for 12/05 was:

ORS	\$10,546,577
Company	<u>\$10,546,677</u>
Difference	(\$ <u>100</u>)

**South Carolina Electric & Gas Company
Computation of Unbilled Revenue
February 2005 – April 2006**

Explanation of Footnotes to Audit Exhibit JRC-7:

(4) Continued:

The difference between ORS and the Company, on a System basis, in the amounts of Purchased & Interchange Power for 1/06 was:

ORS	\$10,091,859
Company	<u>\$10,091,954</u>
Difference	(\$ <u>95</u>)

The monthly and cumulative effect of these differences will be included in the effect for the #(5a) and #(5b) adjustments.

(5)(a) In December 2005, ORS reflected two adjustments to Fossil Fuel Costs. **(1)** ORS made an adjustment to reflect a true-up correction of (\$51,188) to Canadys Coal expense (based on a revised coal receipt) which had not been adjusted per the Deferred Fuel Account. **(2)** ORS made an adjustment to reflect the implementation of the “Jasper Capacity Sharing Agreement”. This agreement is based on PSC Order No. 2005-653, per the SCE&G Gas Rate Case in Docket No. 2005-5-G which reduces Gas Fossil Fuel Costs for a credit totaling (\$142,227). The difference between ORS and the Company, on a System basis, in the amount of Fossil Fuel Costs for 12/05 was:

ORS	\$41,541,065
Company	<u>\$41,734,480</u>
Difference	(<u>\$ 193,415</u>) = (\$51,188 + \$142,227)

The resultant effect on the 12/05 monthly entry of the Deferred Fuel Account, on a retail basis, was:

ORS—Under-Recovery	(\$649,501)
Company—Under-Recovery	<u>(\$818,990)</u>
Under-Recovery Difference	<u>\$169,489</u> (ORS Reduces the Under-Recovery) (Reflected as an Over-Recovery)

The resultant effect on the cumulative balance of the Deferred Fuel Account as of 12/05 was:

ORS—Under-Recovery	(\$62,757,049)
Company—Under-Recovery	<u>(\$62,430,491)</u>
Under-Recovery Difference	(<u>\$ 326,558</u>) (ORS Additional Under-Recovery)

**South Carolina Electric & Gas Company
Computation of Unbilled Revenue
February 2005 – April 2006**

Explanation of Footnotes to Audit Exhibit JRC-7:

(5) Continued:

(5)(b) In January 2006, ORS reflected two adjustments to Fossil Fuel Costs. **(1)** ORS made an adjustment to reduce the Urquhart Steam Plant's Gas Costs by (\$115,657). The Company miscalculated this Gas cost. **(2)** ORS made an adjustment to reflect the implementation of the "Jasper Capacity Sharing Agreement". This agreement is based on PSC Order No. 2005-653, per the SCE&G Gas Rate Case in Docket No. 2005-5-G which reduces Gas Fossil Fuel Costs for a credit totaling (\$142,227). The difference between ORS and the Company, on a System basis, in the amount of Fossil Fuel Costs for 1/06 was:

ORS	\$27,990,439
Company	<u>\$28,248,323</u>
Difference	(\$ 257,884) = (\$115,657 + \$142,227)

The resultant effect on the 1/06 monthly entry of the Deferred Fuel Account, on a retail basis, was:

ORS—Over-Recovery	\$8,013,863
Company—Over-Recovery	<u>\$7,781,658</u>
Over-Recovery Difference	<u>\$ 232,205</u> (ORS Additional Over-Recovery)

The resultant effect on the cumulative balance of the Deferred Fuel Account as of 1/06 was:

ORS—Under-Recovery	(\$54,743,186)
Company—Under-Recovery	<u>(\$54,648,833)</u>
Under-Recovery Difference	<u>(\$ 94,353)</u> (ORS Additional Under-Recovery)

(6) In the estimated March 2006 Nuclear Fuel Costs, the Company includes a Department of Energy (DOE) Settlement Agreement credit of (\$6,000,000). This agreement dealt with Spent Nuclear Fuel and High Level Waste. This (\$6,000,000) credit represents SCE&G's two-thirds (2/3) V.C. Summer Nuclear Plant ownership portion of the \$9,000,000 settlement. The (\$6,000,000) was netted against the estimated March 2006 Nuclear Fuel Costs of \$2,114,000. Nuclear Fuel Costs for estimated March 2006 was then reflected as a credit amount of (\$3,886,000).

South Carolina Electric & Gas Company
Computation of Unbilled Revenue
February 2005 – April 2006

Explanation of Footnotes to Audit Exhibit JRC-7:

Summary of the Effects to the Cumulative Balance of the Deferred Account (w/Explanation #):

Explanation (4a)	(\$496,047)	10/05	Additional Under-Recovery (on Monthly Entry)
Explanation (5a)	\$169,489	12/05	Additional Over-Recovery (on Monthly Entry)
Explanation (5b)	<u>\$232,205</u>	01/06	Additional Over-Recovery (on Monthly Entry)
Total	<u>(\$ 94,353)</u>		

Summary:

The ORS's cumulative under-recovery of fuel costs as of actual January 2006 totaled (\$54,743,186). The Company's cumulative under-recovery total as of actual January 2006 totaled (\$54,648,833). The difference between the Company's and ORS's cumulative under-recovery as of actual January 2006 totals (\$94,353). The ORS's cumulative under-recovery of fuel costs as of estimated April 2006 totaled (\$38,488,437). The Company's cumulative under-recovery total as of estimated April 2006 totaled (\$38,394,084). The difference between the Company's and ORS's cumulative under-recovery as of estimated April 2006 totals (\$94,353).